

Distribution footprint strategy

INNOVATION SESSION GROENEWOUT - JUNE 27TH 2017



GROENEWOUT









Breda June 27th, 2017

9026X.../AB/it

De in dit rapport genoemde conclusies, aanbevelingen en adviezen zijn gebaseerd op door de opdrachtgever verstrekte informatie en gegevens. Besparingen, exploitatie- en investeringsramingen zijn afhankelijk van de in dit rapport genoemde randvoorwaarden en aannames. Alle opdrachten worden aanvaard en uitgevoerd overeenkomstig de Groenewout Algemene Voorwaarden 2012.

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|  | 6 | Organizational outline |

European Distribution Networks

LOCAL DISTRIBUTION

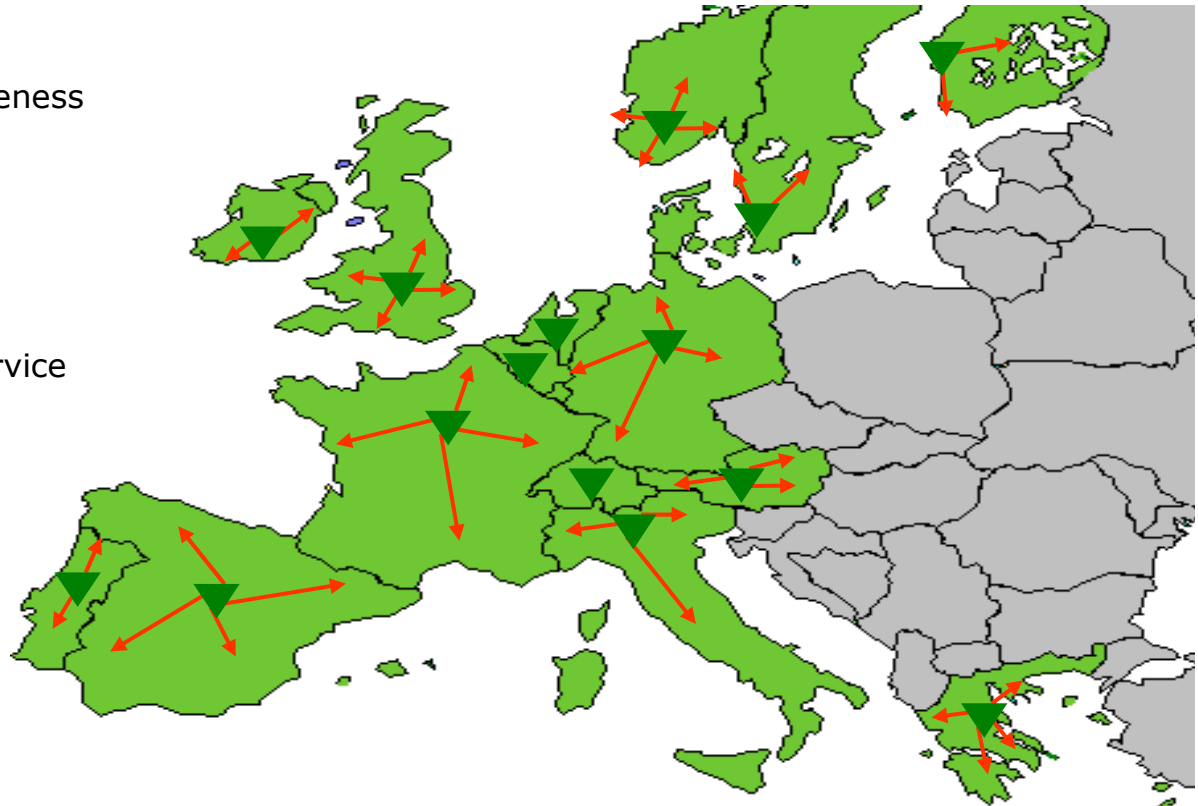
European Economic Community established

1957

Schengen agreement effective

1990

- Limited integral Supply Chain awareness
- Decentralized country approach:
 - DC's self-owned
 - Local stock management
 - Local transport
 - No / limited article overlap
 - No / limited diversification in service



European Distribution Networks

CENTRAL DISTRIBUTION

European Union established

AUT, FI, SE joined EU

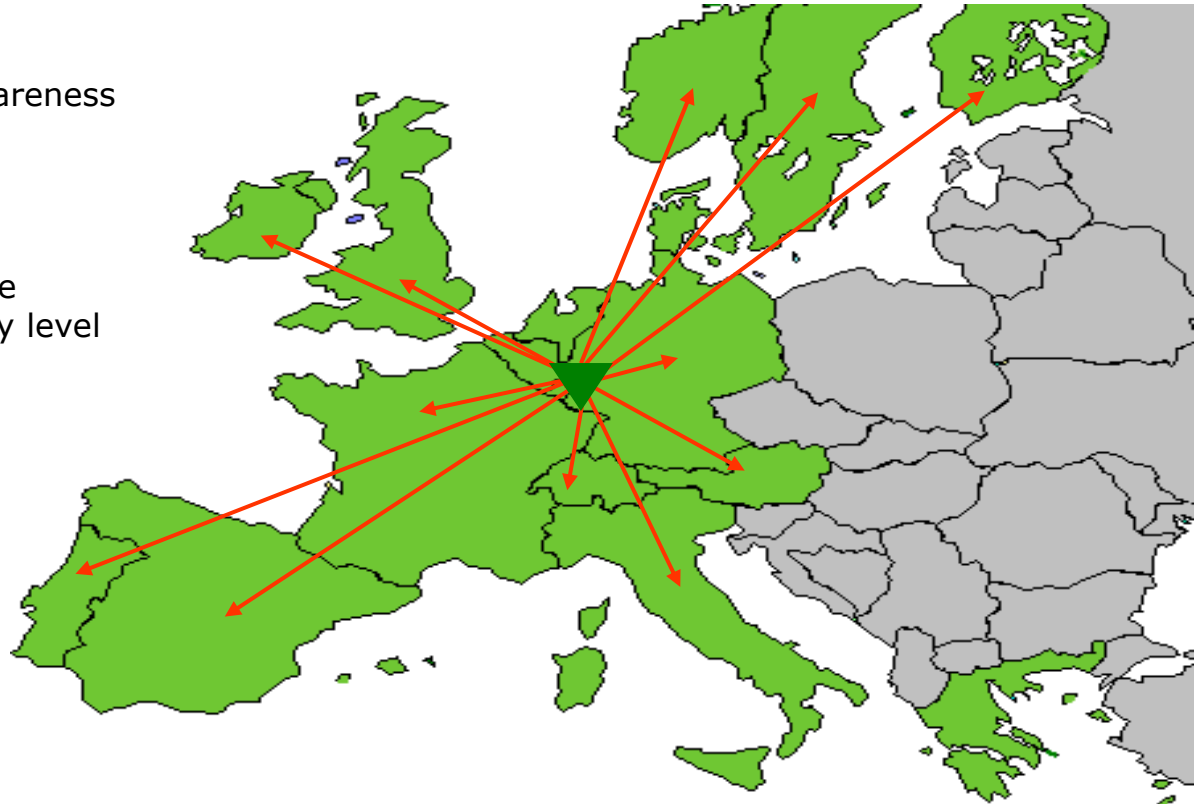
Euro (€) introduced

1993

1995

2002

- Moderate integral Supply Chain awareness
- Centralized European approach:
 - From self-owned to outsourcing
 - Central stock management
 - Transport based on hub structure
 - Service diversification on country level
 - More VAL activities



European Distribution Networks

HUB & SPOKE DISTRIBUTION

10 nations joined EU

RO, BUL joined EU

SL adopted Euro

2004

2007

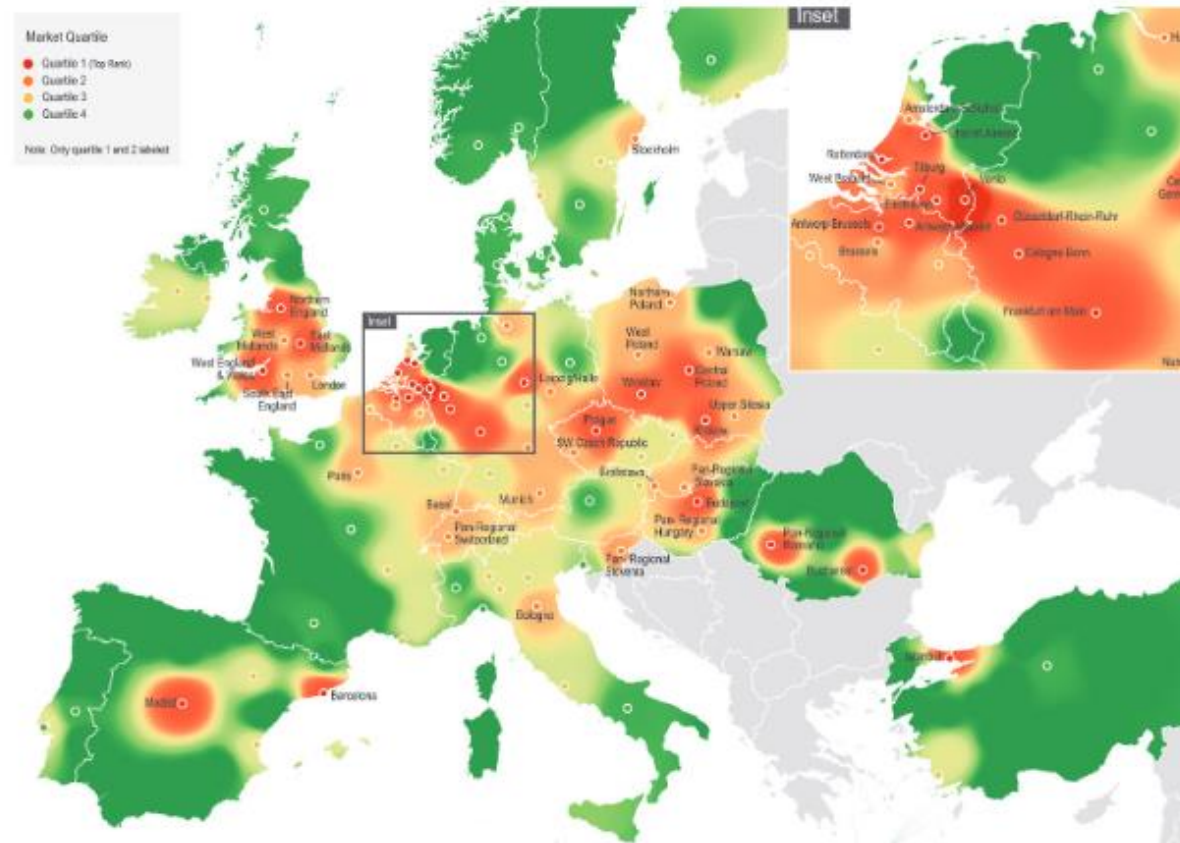
2009

- Full integral Supply Chain awareness
- HUB & SPOKE structures:
 - DC's mainly outsourced & set-up varies per product channel combination
 - Stock management per product channel
 - International trunking & local distribution
 - Service is customized









Europe's most favored logistics locations

BENELUX AND WESTERN GERMANY ARE THE MOST FAVORED LOCATIONS IN 2016



Source: Prologis Research

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Trends and their impact on network footprints

OMNI-CHANNEL DISTRIBUTION

GROWTH IN # OF DISTRIBUTION CHANNELS

- “Brick” stores
- E-commerce
- In-store shops
- Flagship stores
- Outlet
- Wholesale

PICK/PACK/SHIP PROCESSES BECOME COMPLEX

- From full-case picks to piece-picks
- Client specific shipments e.g. e-com packing/giftwrapping, price labels, (filled) displays or private label

FROM

- A separate distribution channel for each PMC, i.e. operating multiple DC's in parallel

TO

- Consolidation of different PMC's into 1 DC, to consolidate stock and manage inventory levels

Trends and their impact on network footprints

INCREASING CUSTOMER SERVICE DEMANDS

CUSTOMER SERVICE AS A COMPETITIVE ADVANTAGE

- Price & product are replaced by speed & service

DELIVERY CHARACTERISTICS BECOME MORE COMPLEX

- Smaller more frequent deliveries
- Same-day deliveries
- Value Added Services

FROM

- Large, central DC's focuses on large orders, long delivery lead times and less responsiveness

TO

- DC's in local market to provide "same-day" of "next-day" deliveries to a substantial client potential

Trends and their impact on network footprints

MARKET- AND BUSINESS AMBIGUITY

RAPIDLY CHANGING CLIENT- AND COMPANY REQUIREMENTS

- Sales growth & service strategy
- Mergers & acquisitions

AGILITY OF THE LOGISTICS NETWORK

- The logistics operation is not aimed at averages but at the agility to switch between highs and lows
- Variability of logistics operational costs

FROM

- Standardized warehouse processes designed for efficiency of a stable workflow

TO

- DC's with maximum flexibility and scalability, independent of growth volumes, order profiles and market channels

Trends and their impact on network footprints

LOGISTICS MECHANIZATION

WAREHOUSE MECHANIZATION IS FINANCIALLY DRIVEN

- ROI < 5 years requires an up-time of more than 10 hrs. a day
- Flexibility versus degree of mechanization/efficiency
- Restrictions product dimensions & packs
- Availability IT support

WAREHOUSE MECHANIZATION AS A COMPANY STRATEGY

- Responsiveness
- Reliability
- Labor independence

FROM

- Manual logistics concepts, unless mechanization reduces operational costs...

TO

- Automated sorting- and packaging systems on the right location to support a quick and swift delivery
- Availability of more affordable mechanization solutions in the market
- Consolidation of operations to create economies-of-scale for the investments

Trends and their impact on network footprints

LOGISTICS PERFORMANCE AS A COMPETITIVE ADVANTAGE

PHYSICAL DISTRIBUTION IS THE VITAL LINK TO THE CUSTOMER

- More impulse buyers - all inventory available to all customers

FUNDAMENTELE POSITIE VAN SUPPLY CHAIN

- Supply chain as the orchestrator between production, commerce & finance, Integrated Business Planning
- From material flows to financial flows with concepts as order-2-cash cycle time

FROM

- Logistics reporting in the chain of the COO
- Logistics as a costs center

TO

- Supply chain is an autonomous function on C-level
- The logistics network as a responsive tool to distinct yourselves positively from the competition

Trends and their impact on network footprints

(BIG) DATA

COMPLEXITY OF LOGISTICS DATA

- Globalization leads to more suppliers and customers
- Exponential growth of the number of article codes

IMPORTANCE OF SUPPLY CHAINS PLANNING

- Increasing dependency on the accuracy of data with regards to tracking & tracing, continuous optimization and costs efficiency







FROM

- Data availability in silo-ed per operating company
- Data are not specifically focused on logistics operations e.g. shipment weights, product dimensions

NAAR

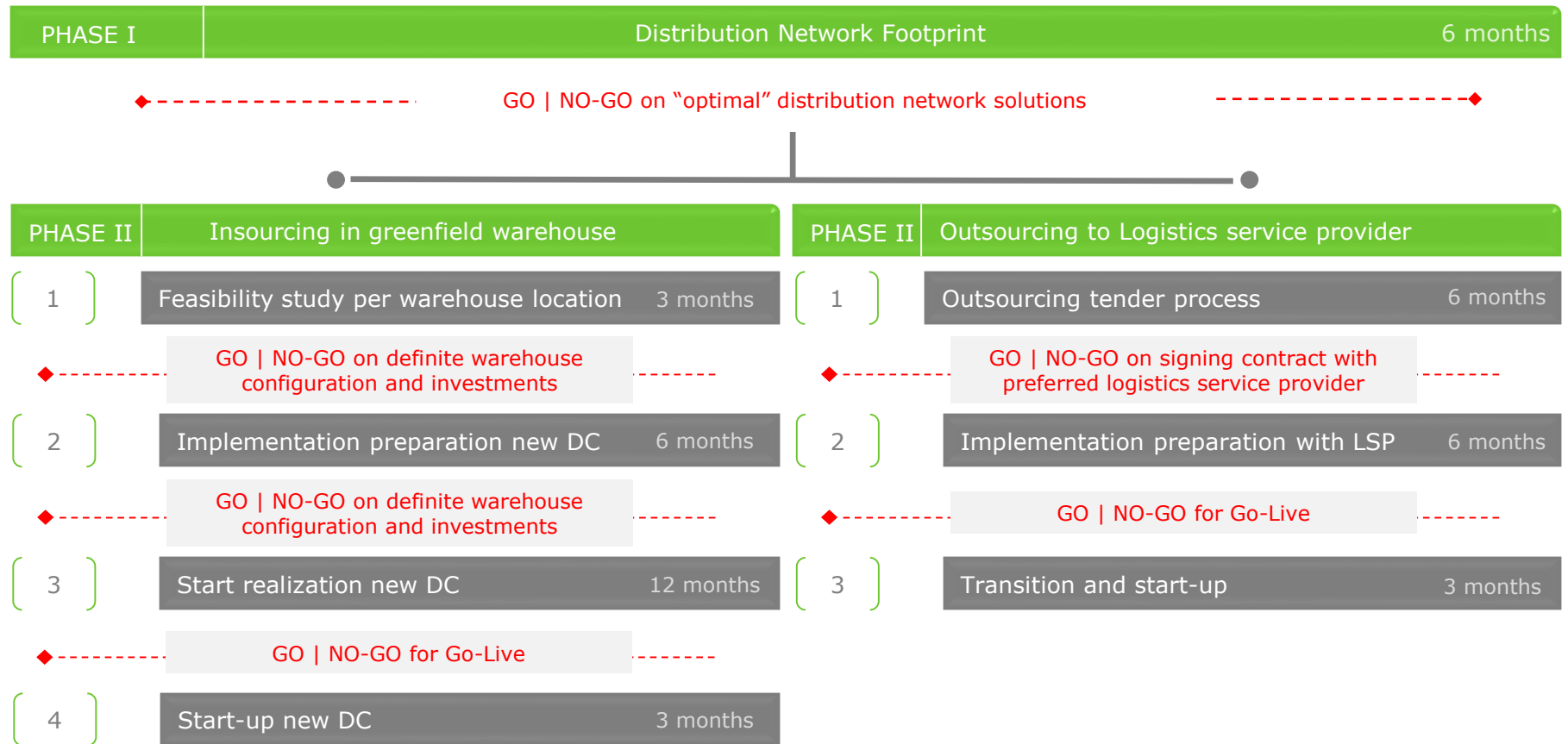
- Complete and accurate master data of products and shipments to design an efficient DC
- Distribution & deployment scheduling
- Integrated Business Planning – logistics scenario assessments
- Anticipating logistics

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Design & realization distribution network footprint

PLAN OF APPROACH - OVERALL



Project approach - distribution network design

PHASING & LEAD-TIME

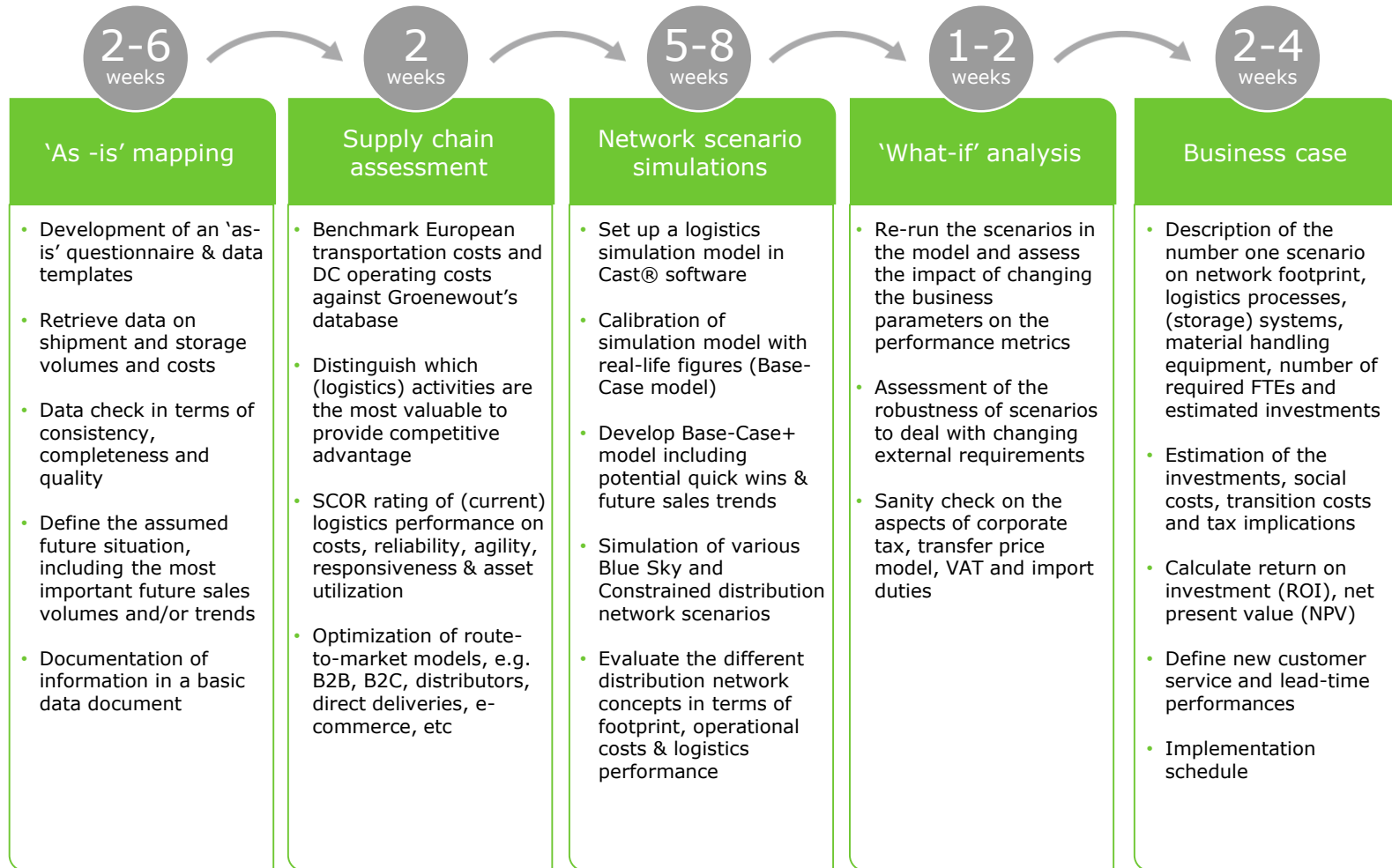








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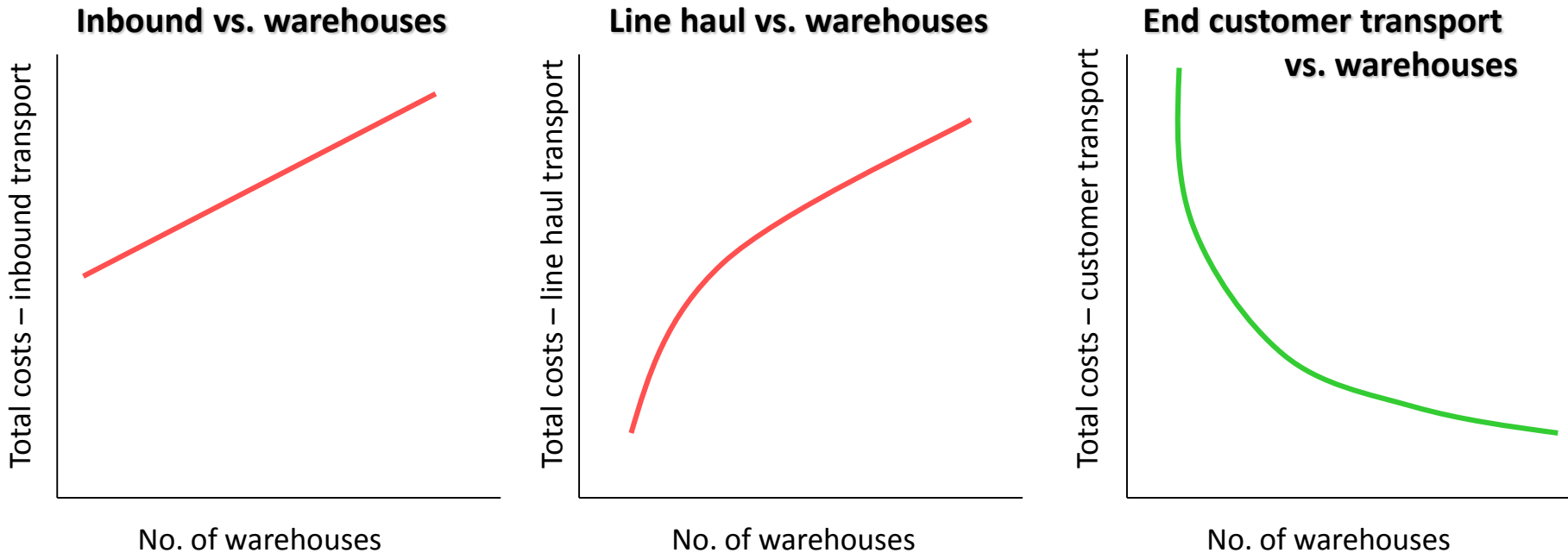
Decision factors when defining the network strategy

SUPPLY CHAINS OPTIMIZATION REFERENCE (SCOR) MODEL

| | Performance attribute | Performance Attribute Definition |
|----------------|------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CUSTOMER FACED | Supply Chain Delivery Reliability | The performance of the supply chain in delivering: the correct product, to the correct place, at the correct time, in the correct condition and packaging, in the correct quantity, with the correct documentation, to the correct customer |
| | Supply Chain Responsiveness | The velocity at which a supply chain provides products to the customer |
| | Supply Chain Flexibility | The agility of a supply chain in responding to marketplace changes to gain or maintain competitive advantage |
| INTERNAL FACED | Supply Chain Costs | The costs associated with operating the supply chain |
| | Supply Chain Asset Management Efficiency | The effectiveness of an organization in managing assets to support demand satisfaction. This includes the management of all assets: fixed and working capital |

Supply chains operational costs

TRANSPORT



Inbound transport : from production facility / supplier to the warehouse

Intercompany transport: between warehouse facilities with the objective of inventory replenishment

Outbound transport : “last-mile” transport from warehouse to end-customer

Supply chains operational costs

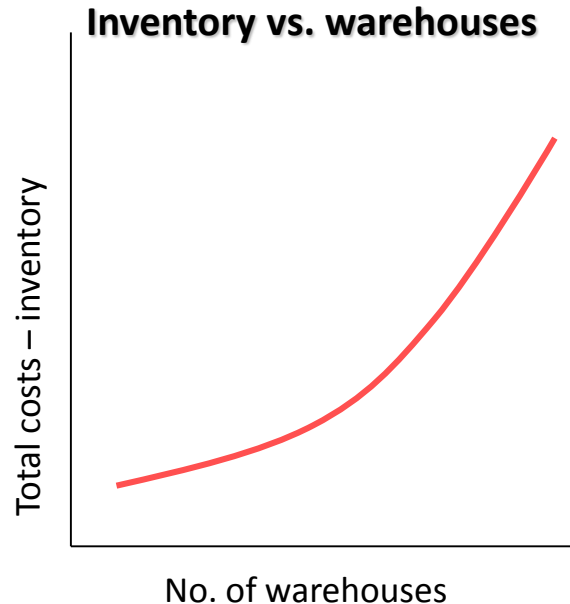
WAREHOUSING



- Building costs** : leasing, maintenance and operation (energy, heating, ..) of a warehouse building
- Handling costs** : labor costs (direct & indirect) for receiving, storage, picking & packing of finished goods in the warehouse
- Equipment costs** : operating and maintenance of non-fixed assets as FLT's, racking, conveyor belts

Supply chains assets efficiency

INVENTORY

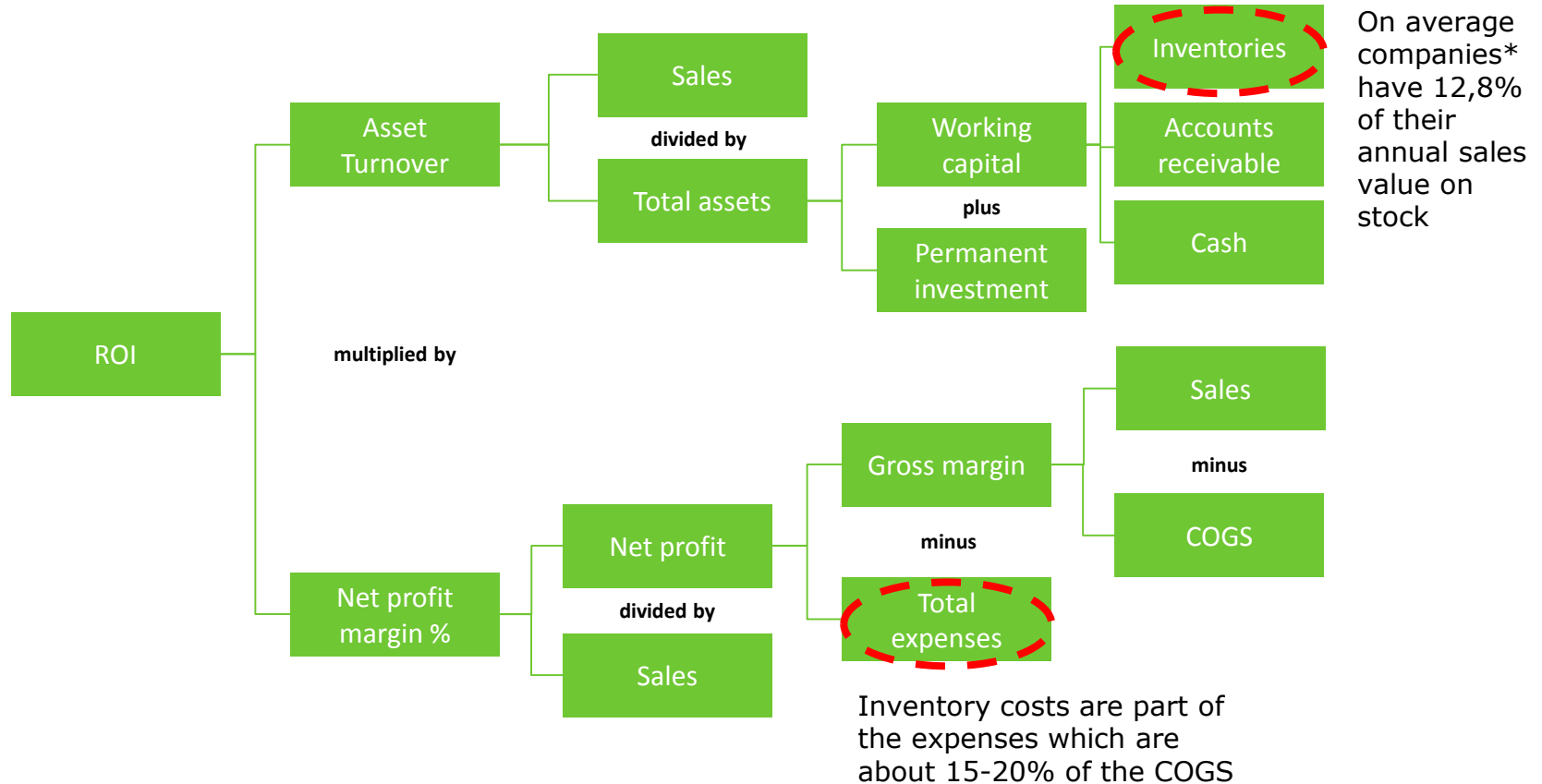


- Opportunity Cost** : opportunity cost of holding inventory against a WACC percentage
- Shrinkage** : breakage, pilferage, and deterioration of inventories
- Insurance and Taxes** : insuring inventories and taxes associated with the holding of inventory.
- Obsolescence** : In-house inventory (shelf life, spoils), channel obsolescence (consignment), Field Service Parts Obsolescence

Inventory costs





INVENTORY IMPACTS THE ASSET TURNOVER AND NET PROFIT MARGIN


DuPont chart: Inventory affects asset efficiency and net profit

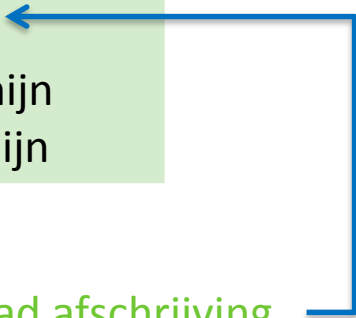


Inventory costs

INVENTORY AND ITS FINANCIAL IMPACT

| Activa / debet | Passiva / credit |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Vaste activa <ul style="list-style-type: none">- Onroerend goed- Immateriële vaste activa- Financiële vaste activa | Eigen vermogen 1 jan + winst na belasting   = Eigen vermogen 31 dec |
| Vlottende activa <ul style="list-style-type: none">- Voorraad - Debiteuren- Liquide middelen | Verplichtingen <ul style="list-style-type: none">- Voorzieningen - Schulden lange termijn- Schulden korte termijn |

 Voorraad-depreciatie

 voorziening voorraad afschrijving







Inventory costs

STOCK IMPACT CALCULATIONS



$$Inventory_{AB} = \sqrt{\frac{throughput_{AB}}{throughput_A} \times \frac{no. of SKU's_{AB}}{no. of SKU's_A} \times \frac{leadtime_{AB}}{leadtime_A}}$$

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Methodology - distribution network design

A BOARDROOM FINANCIAL BUSINESS CASE

- **Operational business case**

- Operational Expenses OPEX
 - Transport
 - Warehousing
 - Inventory costs
- Capital expenses CAPEX
 - Investments
 - Transition costs (moving, social costs,)
 - Land is excluded (no depreciation, only has a cash flow impact)
 - Des-investments (e.g. closure costs, remaining property value, contract penalties,)
- Logistics performance
 - Reliability
 - Flexibility
 - Responsiveness

- **Fiscal aspects / tax effective supply chain**

- VAT (deferment, bonded warehousing)
- Import duties
- Corporate tax / Transfer Pricing

- **Location factors**

- Qualitative location criteria (infrastructure, labor force, ...)
- Regional/national incentives

Financial business case

NET PRESENT VALUE VS. ROI

The Return on Investment methodology embeds a number of restrictions:

- It only considers the net-income during the ROI period. Positive/negative incomes outside this period is not considered.
- The ROI is not an objective in itself. The target is how much savings/income is realized in total.
- An null investment has the best ROI, being 0 years.
- ROI does not consider the time-value of money.

$$\text{Net Present Value} = - CF_0 + \frac{CF_1}{(1 + R)^1} + \frac{CF_2}{(1 + R)^2} + \frac{CF_3}{(1 + R)^3} + \dots$$

Financial business case

EXAMPLE NPV CALCULATION WAREHOUSE TRANSFER IN 2018

- Market value current DC, time of estimated sales is 2020 • € 750,000
- One time severance pay for logistics personnel current DC • € 350,000
- Purchase value new DC, time of estimated purchase in 2018 • € 1,600,000
- Upgrade investment in logistics equipment in new DC in 2021 • € 600,000
- Lower outbound transport costs due to shorter last-mile distances • € 750,000
- Higher transport costs for supplies due to longer distances • € 250,000
- Additional labor costs in new DC • € 150,000
- Reduced safety stock due to shortened market distance • € 500,000
- WACC • 12%
- GO-LIVE date new DC • July 1st 2018

Financial business case

EXAMPLE NPV CALCULATION WAREHOUSE TRANSFER IN 2018

| | NET PRESENT VALUE in EURO'S | | | | | |
|-------------------------------------|-----------------------------|------|------|------|------|------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| inbound transport | | | | | | |
| outbound transport | | | | | | |
| labor costs | | | | | | |
| inventory costs | | | | | | |
| OPERATIONAL CASH FLOW | | | | | | |
| investment new DC | | | | | | |
| income old DC | | | | | | |
| severance payments | | | | | | |
| inventory reduction | | | | | | |
| ONE-TIME CASH FLOW | | | | | | |
| TOTAL CASH FLOW | | | | | | |
| DISCOUNTED ANNUAL CASH FLOW | | | | | | |
| NET PRESENT VALUE CUMULATIVE | | | | | | |

Financial business case

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| inbound transport | | | | | | |
| outbound transport | | | | | | |
| labor costs | | | | | | |
| inventory costs | | | | | | |
| OPERATIONAL CASH FLOW | | | | | | |
| investment new DC | | | | | | |
| income old DC | | | 750.000 | | | |
| severance payments | | | | | | |
| inventory reduction | | | | | | |
| ONE-TIME CASH FLOW | | | | | | |
| TOTAL CASH FLOW | | | | | | |
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Financial business case

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| inbound transport | | | | | | |
| outbound transport | | | | | | |
| labor costs | | | | | | |
| inventory costs | | | | | | |
| OPERATIONAL CASH FLOW | | | | | | |
| investment new DC | | | | | | |
| income old DC | | | 750.000 | | | |
| severance payments | -350.000 | | | | | |
| inventory reduction | | | | | | |
| ONE-TIME CASH FLOW | | | | | | |
| TOTAL CASH FLOW | | | | | | |
| DISCOUNTED ANNUAL CASH FLOW | | | | | | |
| NET PRESENT VALUE CUMULATIVE | | | | | | |

Financial business case

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| inbound transport | | | | | | |
| outbound transport | | | | | | |
| labor costs | | | | | | |
| inventory costs | | | | | | |
| OPERATIONAL CASH FLOW | | | | | | |
| investment new DC | -1.600.000 | | | | | |
| income old DC | | | 750.000 | | | |
| severance payments | -350.000 | | | | | |
| inventory reduction | | | | | | |
| ONE-TIME CASH FLOW | | | | | | |
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| OPERATIONAL CASH FLOW | | | | | | |
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| ONE-TIME CASH FLOW | | | | | | |
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Financial business case

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| | NET PRESENT VALUE in EURO'S | | | | | |
|------------------------------|-----------------------------|---------|---------|----------|---------|---------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| inbound transport | | | | | | |
| outbound transport | 375.000 | 750.000 | 750.000 | 750.000 | 750.000 | 750.000 |
| labor costs | | | | | | |
| inventory costs | | | | | | |
| OPERATIONAL CASH FLOW | | | | | | |
| investment new DC | -1.600.000 | | | -600.000 | | |
| income old DC | | | 750.000 | | | |
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| inventory reduction | | | | | | |
| ONE-TIME CASH FLOW | | | | | | |
| TOTAL CASH FLOW | | | | | | |
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| NET PRESENT VALUE CUMULATIVE | | | | | | |

Financial business case

EXAMPLE NPV CALCULATION WAREHOUSE TRANSFER IN 2018

| | NET PRESENT VALUE in EURO'S | | | | | |
|------------------------------|-----------------------------|----------|----------|----------|----------|----------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| inbound transport | -125.000 | -250.000 | -250.000 | -250.000 | -250.000 | -250.000 |
| outbound transport | 375.000 | 750.000 | 750.000 | 750.000 | 750.000 | 750.000 |
| labor costs | | | | | | |
| inventory costs | | | | | | |
| OPERATIONAL CASH FLOW | | | | | | |
| investment new DC | -1.600.000 | | | -600.000 | | |
| income old DC | | | 750.000 | | | |
| severance payments | -350.000 | | | | | |
| inventory reduction | | | | | | |
| ONE-TIME CASH FLOW | | | | | | |
| TOTAL CASH FLOW | | | | | | |
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Financial business case

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| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| inbound transport | -125.000 | -250.000 | -250.000 | -250.000 | -250.000 | -250.000 |
| outbound transport | 375.000 | 750.000 | 750.000 | 750.000 | 750.000 | 750.000 |
| labor costs | -75.000 | -150.000 | -150.000 | -150.000 | -150.000 | -150.000 |
| inventory costs | | | | | | |
| OPERATIONAL CASH FLOW | | | | | | |
| investment new DC | -1.600.000 | | | -600.000 | | |
| income old DC | | | 750.000 | | | |
| severance payments | -350.000 | | | | | |
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| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| inbound transport | -125.000 | -250.000 | -250.000 | -250.000 | -250.000 | -250.000 |
| outbound transport | 375.000 | 750.000 | 750.000 | 750.000 | 750.000 | 750.000 |
| labor costs | -75.000 | -150.000 | -150.000 | -150.000 | -150.000 | -150.000 |
| inventory costs | 30.000 | 60.000 | 60.000 | 60.000 | 60.000 | 60.000 |
| OPERATIONAL CASH FLOW | | | | | | |
| investment new DC | -1.600.000 | | | -600.000 | | |
| income old DC | | | 750.000 | | | |
| severance payments | -350.000 | | | | | |
| inventory reduction | 500.000 | | | | | |
| ONE-TIME CASH FLOW | | | | | | |
| TOTAL CASH FLOW | | | | | | |
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Financial business case

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| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| inbound transport | -125.000 | -250.000 | -250.000 | -250.000 | -250.000 | -250.000 |
| outbound transport | 375.000 | 750.000 | 750.000 | 750.000 | 750.000 | 750.000 |
| labor costs | -75.000 | -150.000 | -150.000 | -150.000 | -150.000 | -150.000 |
| inventory costs | 30.000 | 60.000 | 60.000 | 60.000 | 60.000 | 60.000 |
| OPERATIONAL CASH FLOW | 205.000 | 410.000 | 410.000 | 410.000 | 410.000 | 410.000 |
| investment new DC | -1.600.000 | | | -600.000 | | |
| income old DC | | | 750.000 | | | |
| severance payments | -350.000 | | | | | |
| inventory reduction | 500.000 | | | | | |
| ONE-TIME CASH FLOW | -1.450.000 | 0 | 750.000 | -600.000 | 0 | 0 |
| TOTAL CASH FLOW | -1.245.000 | 410.000 | 1.160.000 | -190.000 | 410.000 | 410.000 |
| DISCOUNTED ANNUAL CASH FLOW | | | | | | |
| NET PRESENT VALUE CUMULATIVE | | | | | | |

Financial business case

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| outbound transport | 375.000 | 750.000 | 750.000 | 750.000 | 750.000 | 750.000 |
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| inventory reduction | 500.000 | | | | | |
| ONE-TIME CASH FLOW | -1.450.000 | 0 | 750.000 | -600.000 | 0 | 0 |
| TOTAL CASH FLOW | -1.245.000 | 410.000 | 1.160.000 | -190.000 | 410.000 | 410.000 |
| DISCOUNTED ANNUAL CASH FLOW | -1.245.000 | 366.071 | 924.745 | -135.238 | 260.562 | 232.645 |
| NET PRESENT VALUE CUMULATIVE | | | | | | |

Financial business case

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| severance payments | -350.000 | | | | | |
| inventory reduction | 500.000 | | | | | |
| ONE-TIME CASH FLOW | -1.450.000 | 0 | 750.000 | -600.000 | 0 | 0 |
| TOTAL CASH FLOW | -1.245.000 | 410.000 | 1.160.000 | -190.000 | 410.000 | 410.000 |
| DISCOUNTED ANNUAL CASH FLOW | -1.245.000 | 366.071 | 924.745 | -135.238 | 260.562 | 232.645 |
| NET PRESENT VALUE CUMULATIVE | -1.245.000 | -878.929 | 45.816 | -89.422 | 171.140 | 403.786 |

Methodology - distribution network design

A BOARDROOM FINANCIAL BUSINESS CASE

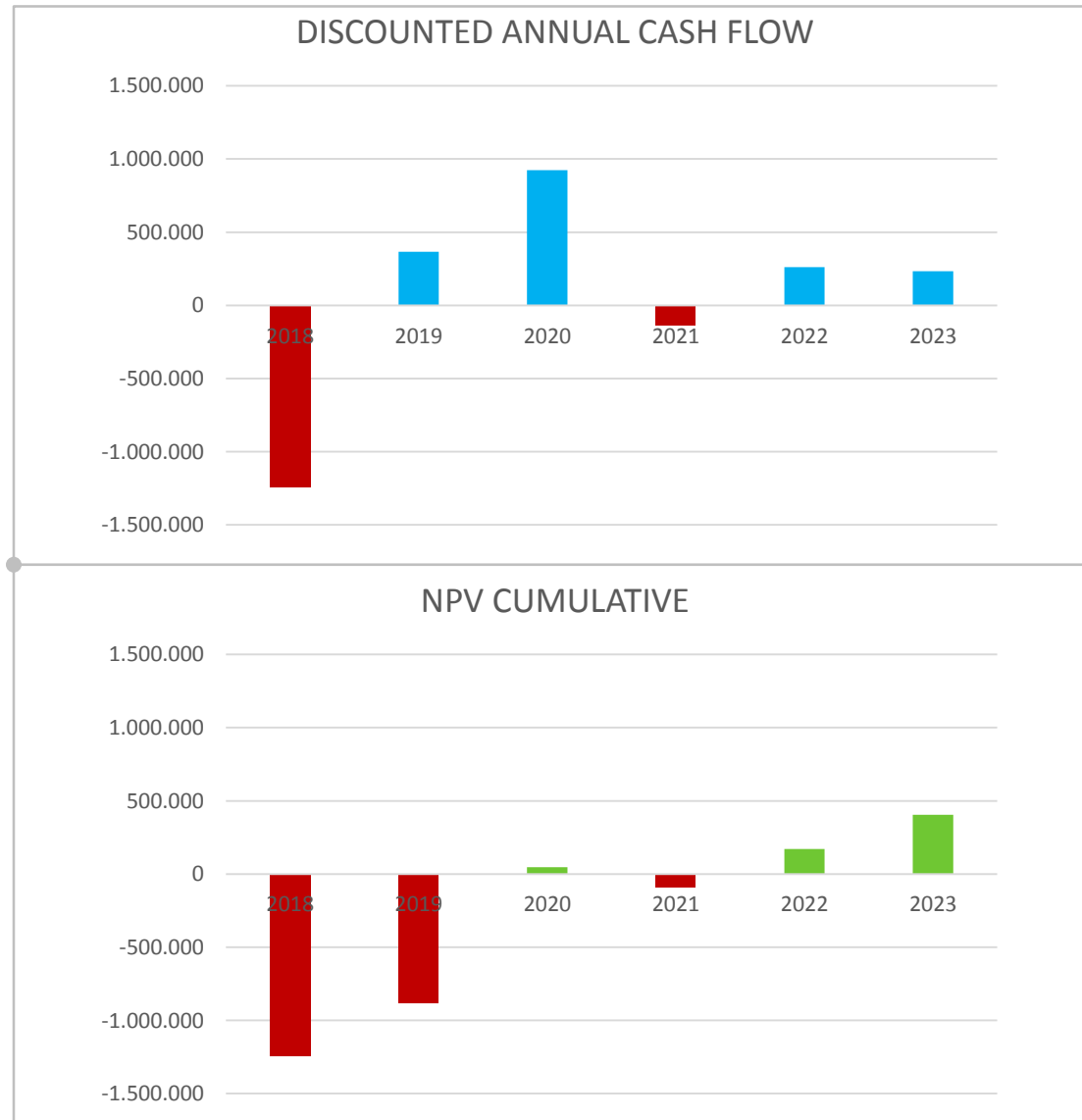








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Inventory costs

ASSESS YOUR COMPANY INVENTORY MANAGEMENT MATURITY

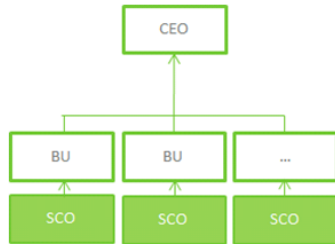
Level of professionalism in inventory management

| Symptoms | <ul style="list-style-type: none"> • Gut feeling inventory management • Many back orders • No idea about stock quantities and service level | <ul style="list-style-type: none"> • Days on inventory policies • Excel based computations • Inventory is monitored | <ul style="list-style-type: none"> • Basic statistic inventory calculations (P1) based on historic demand • ERP or Excel based computations • Inventory is monitored | <ul style="list-style-type: none"> • Demand and forecast planning • S&OP processes • Single echelon inventory optimization (P2) • Inventory is monitored | <ul style="list-style-type: none"> • Demand and forecast planning • S&OP processes • Multi-echelon inventory optimization • Inventory specialist |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Service level: | 50-60% | 60-80% | 80-95% | Up to 99,9% | Up to 99,9% |
| Potential: | Base Case | Limited | 20-30% | 30-50% | > 50% |

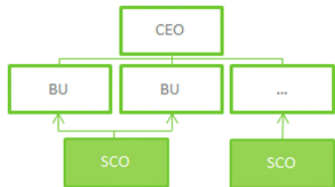
X-organizational logistics

FUNCTIONAL OUTLINE OPTIONS

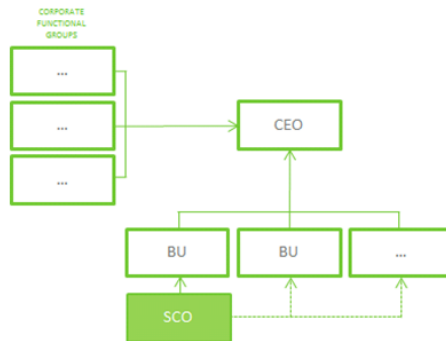
DIVISIONAL



DIVISIONAL,
SHARED-SERVICE



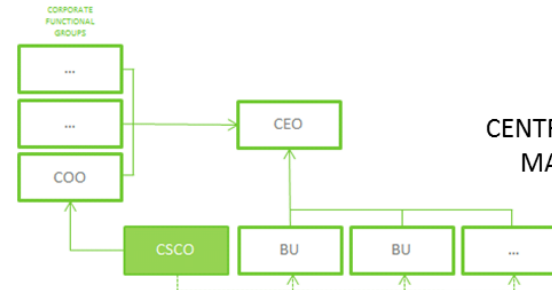
QUASI MATRIX



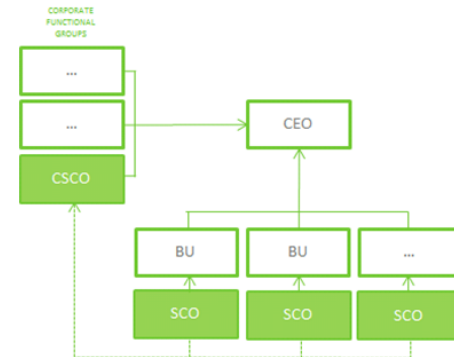
C-LEVEL GROWTH



FUNCTIONAL
INTEGRATED



CENTRALIZED
MATRIX



HARMONIZED
MATRIX

DRIVEN BY KNOWLEDGE

Financial business case

EXAMPLE NPV CALCULATION WAREHOUSE TRANSFER IN 2018

| | NET PRESENT VALUE in EURO'S | | | | | |
|-------------------------------------|-----------------------------|-----------------|------------------|-----------------|----------------|----------------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| inbound transport | -125.000 | -250.000 | -250.000 | -250.000 | -250.000 | -250.000 |
| outbound transport | 375.000 | 750.000 | 750.000 | 750.000 | 750.000 | 750.000 |
| labor costs | -75.000 | -150.000 | -150.000 | -150.000 | -150.000 | -150.000 |
| inventory costs | 30.000 | 60.000 | 60.000 | 60.000 | 60.000 | 60.000 |
| OPERATIONAL CASH FLOW | 205.000 | 410.000 | 410.000 | 410.000 | 410.000 | 410.000 |
| investment new DC | -1.600.000 | | | -600.000 | | |
| income old DC | | | 750.000 | | | |
| severance payments | -350.000 | | | | | |
| inventory reduction | 500.000 | | | | | |
| ONE-TIME CASH FLOW | -1.450.000 | 0 | 750.000 | -600.000 | 0 | 0 |
| TOTAL CASH FLOW | -1.245.000 | 410.000 | 1.160.000 | -190.000 | 410.000 | 410.000 |
| DISCOUNTED ANNUAL CASH FLOW | -1.245.000 | 366.071 | 924.745 | -135.238 | 260.562 | 232.645 |
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