

# The Next Generation of Grocery Supply Chains

## ES3 Overview



# Imagine 100 internets...

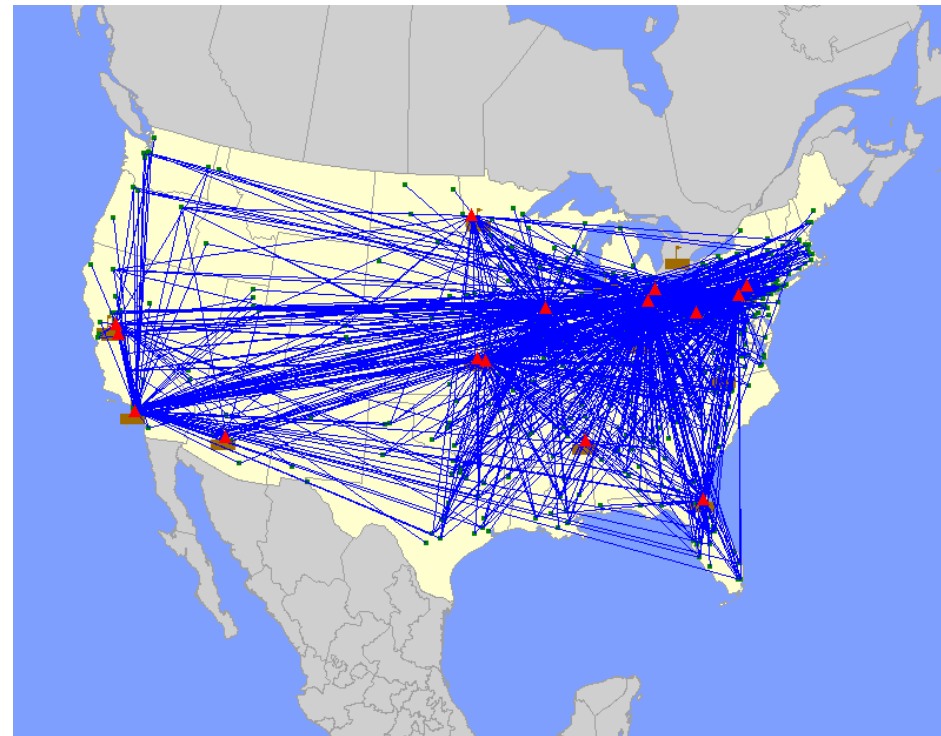


- ◆ It would be hard to do business
- ◆ It would be expensive

www, ttt, xxx, yyy, zzz, ...

## *So why do we have 100s of supply chains?*

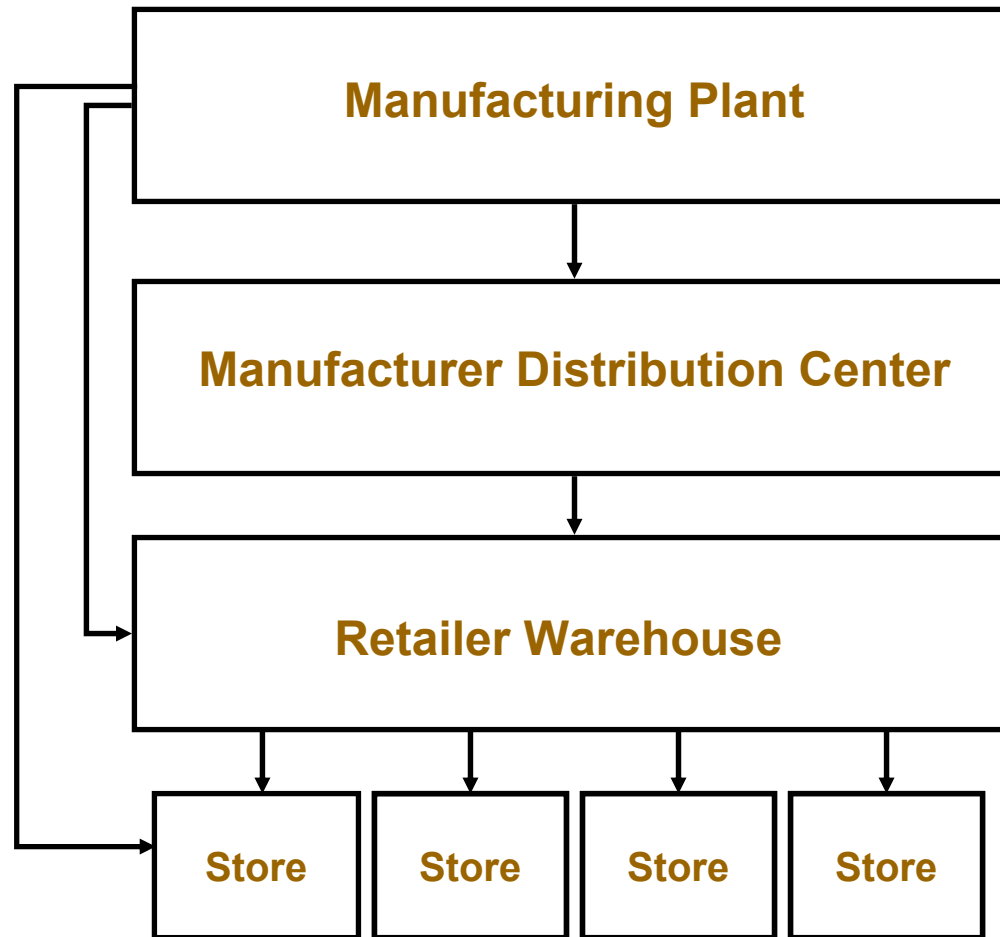
- ◆ Each manufacturer has their own supply chain
- ◆ Each retailer or wholesaler has their own supply chain
- ◆ It makes it hard to do business
- ◆ It makes it expensive



# Current supply chains do not remove enough costs



## Single Manufacturer Supply Chain



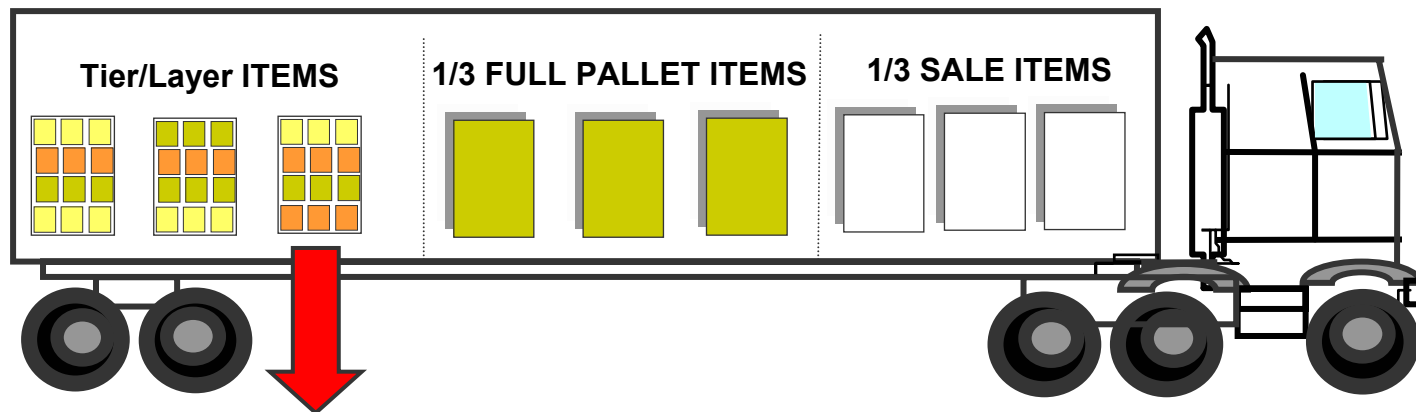
**A single manufacturer supply chain creates excessive inventory & depresses service levels**

# The current EOQ is a truckload



Minimum **Economic Order Quantities** of full truckloads, and excessive lead-times, depress service levels and result in increased inventory levels and double-handling throughout the network.

Retailer Order the week before the promotion



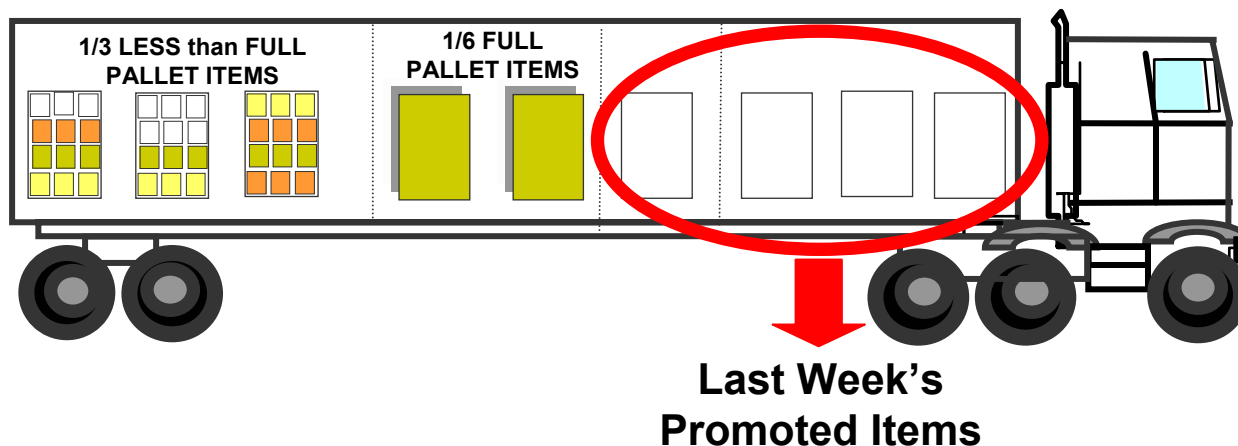
Minimums are achieved with  
tier or layer items

# Buying full truckloads results in lost sales



- ◆ Full truckload order requirements prevent buyers from ordering slow movers, during the week after a promotion, because the **fast mover volume is not there to fill the truck**
- ◆ The truck that never gets ordered is the difference between 99% DC service from the manufacturer and **89%-92% store service to the consumer**
- ◆ Service Levels are measured on “cases ordered vs cases shipped” instead of “**items ordered vs items shipped**”

## Customer Order the week after the promotion



# ES3 changes the EOQ



## By building the first, true, JIT distribution facility

- ◆ **Storage of multiple manufacturers' items in single facility**
- ◆ **Servicing all classes of trade for the Northeast & Mid-Atlantic**
- ◆ **Supporting consolidated, multi-manufacturer orders**
- ◆ **Delivering to retailers within 24 hours**
- ◆ **Optimizing the usage of our grocery heritage, technology, and supply chain know-how**



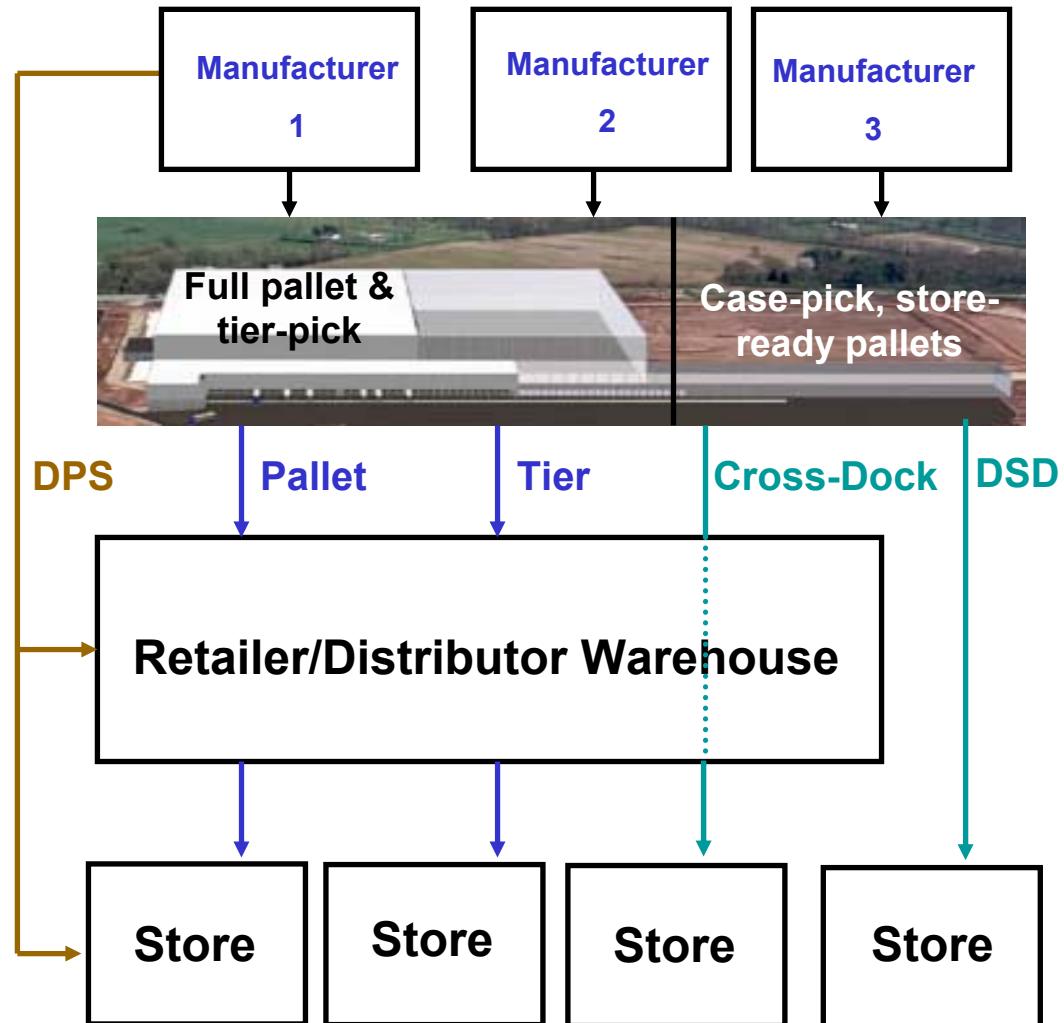
**York, Pennsylvania Facility  
Operational June 2002**

**Finished 2.5 million sq ft  
20 to 30 times larger than traditional  
warehouses**

# Products flow efficiently



- ◆ **Direct-Plant-Ship:** Ultra-fast movers ship directly from manufacturers' plants to the retailers' warehouse or stores
- ◆ **Warehouse Replenishment:** Retailers pull fast and slow moving products out of ES3 by pallet or tier as needed
- ◆ **Direct-Store-Delivery:** Multi-manufacturer, case-pick, aisle friendly pallets are cross-docked or delivered directly to the store



# ES3 adds value to distribution

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- ◆ **Complement to DPS**
  - Interim replenishment between loads
  - Order expediting service
- ◆ **Promotion replenishment**
  - Initial supply is DPS
  - Daily replenishment from ES3 eliminates OOS and returns
- ◆ **New item distribution support**
  - Ensures smooth new item rollout by reducing OOS due to inaccurate forecasts
- ◆ **Quick response to event-driven demand**
  - Ability to react quickly to demand generated by events, weather, etc.
- ◆ **Key customer requirement compliance**
  - No more fees due to lack of compliance with key customer requirements

# ES3 adds value to distribution



- ◆ **Variety support**
  - Support for regional assortment (flavor, scent, color, etc.) preferences
  - Ability to build “rainbow” pallets on demand
- ◆ **EOQs of tiers or cases**
  - OOS reduced because of smaller order quantities and more frequent delivery times
- ◆ **Seasonal support**
  - JIT delivery for seasonal or event-driven peaks in demand
- ◆ **Reduced damages**
  - Limited touch process and JIT delivery reduces handling and, therefore, damages
- ◆ **Competitive advantage**
  - Lower retailer storage and handling costs result in manufacturer competitive advantage
- ◆ **Lower transportation costs**
  - Freight charges are allocated across manufacturers

# Retailer Benefits



- ◆ **Reduced inventory carrying costs**
  - Inventory can be reduced from 3 weeks to less than 1 week
- ◆ **One-time cash flow gain**
- ◆ **Reduced shrink**
- ◆ **Improved sales due to fewer out-of-stocks**
  - 24-hour turnaround on orders
  - Future flows of DSD
  - Aisle-friendly pallets
  - Ability to consolidate private label products
- ◆ **Improved selection footprint productivity**
- ◆ **Improved receiving production through use of ASNs**
- ◆ **Capital Avoidance**
  - More capacity through existing facility
- ◆ **Enhanced variety**
  - Ability to localize product selection with removal of warehouse capacity constraints
  - Store-specific items cross-docked through retail DCs or delivered directly to the stores

# The ES3 Difference



ES3's model provides the manufacturer a competitive advantage. We use world-class talent to offer:

- ◆ Unique, differentiated model, and savings
- ◆ Supply chain experience
- ◆ Asset management expertise
- ◆ Financial strength
- ◆ Technology
- ◆ Process orientation

