The ever changing supply chain *strategy*

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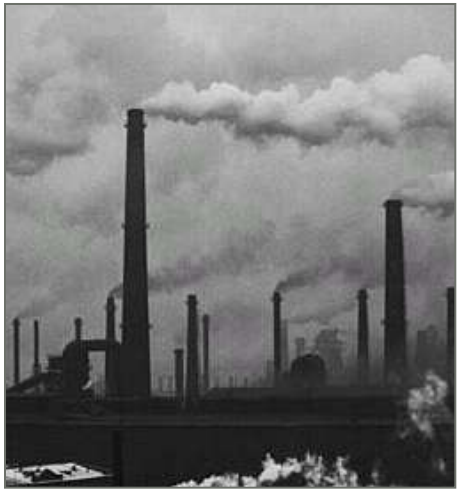
Domestic production – Circa 1950

Domestic Production

Regional Distribution

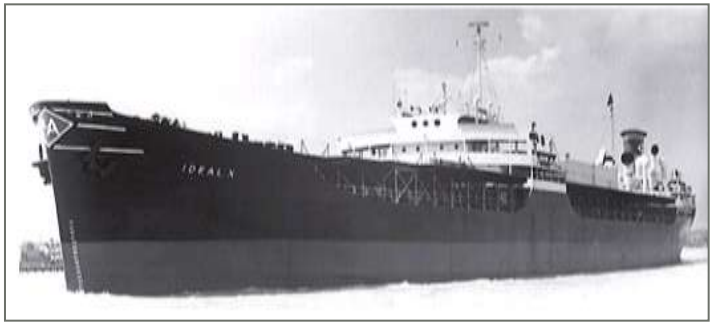


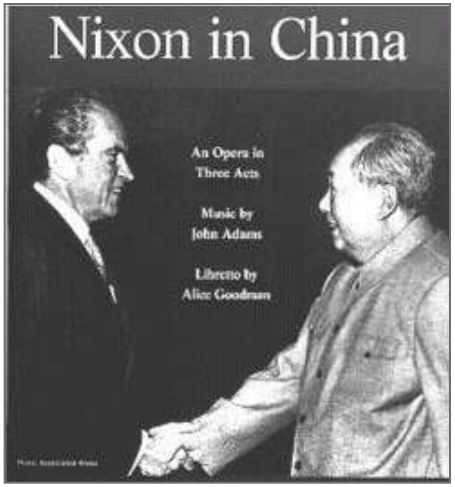
Domestic production – Circa 1970

Containerization

New Markets

Domestic Labor





Global production – Circa 2011

Longer Supply Chains

Global Manufacturing

Integrated Supply Chain

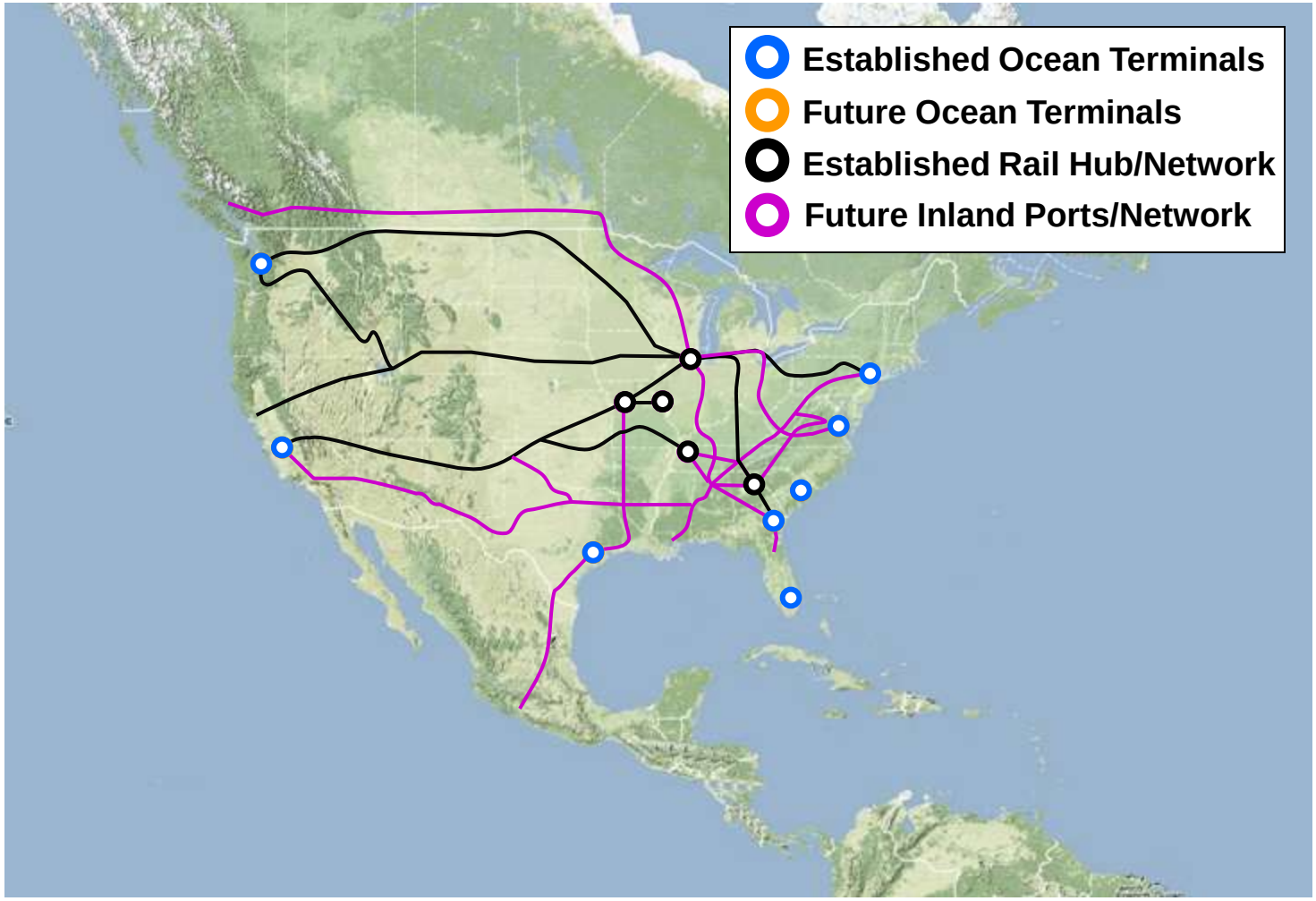
Future Challenges

- Environmental
- Port Security
- Port and Rail Infrastructure
- Owner Operator Capacity

Future Considerations

- Lazero Cárdenas
- Prince Rupert
- Inland Ports
- Panama Canal Expansion

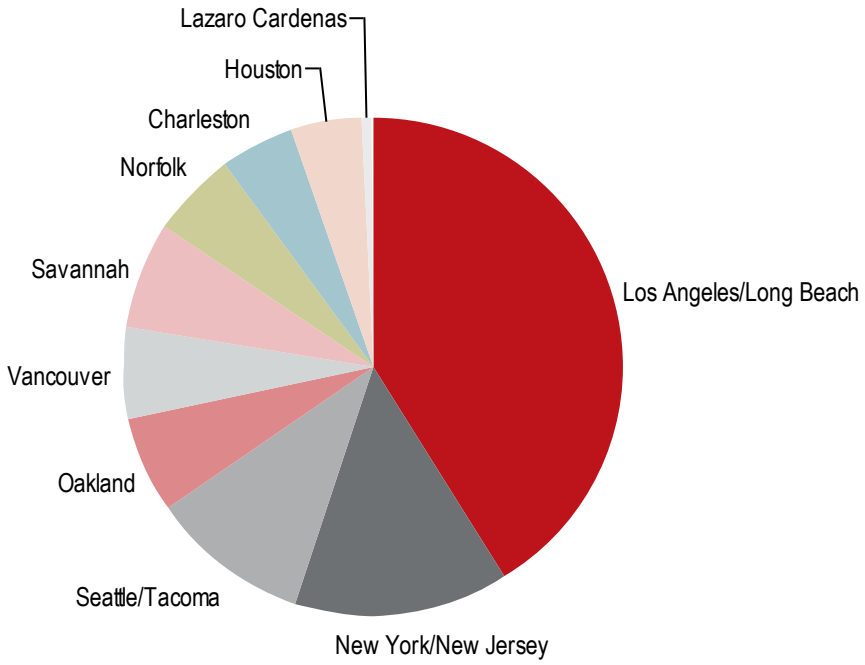
Future network (by 2015)



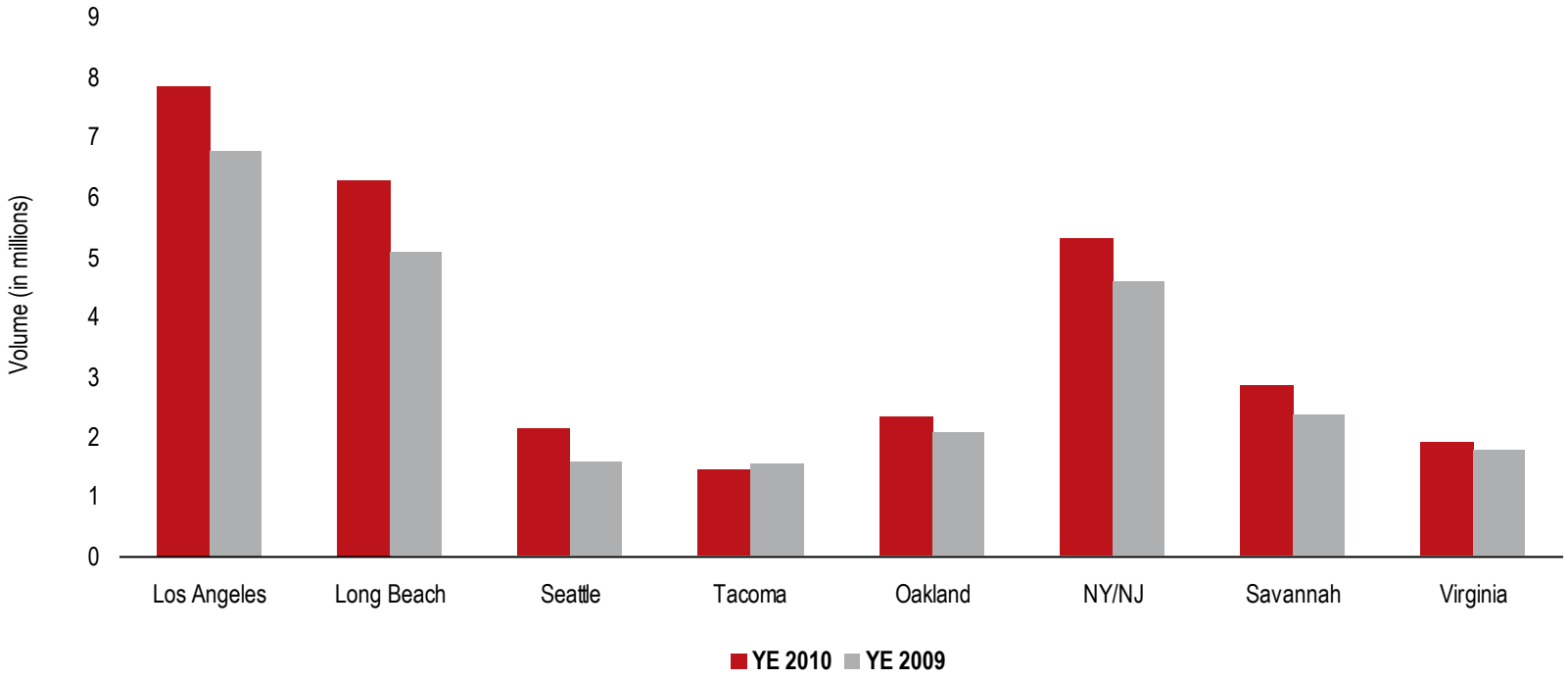
Major U.S. ports

Share of imports (in Millions of TEU's)

Containers Handled	2009	2010	2009-2010 Growth
Los Angeles/Long Beach	11,820	12,780	**8.10%**
New York/New Jersey	4,560	5,290	**16.0%**
Seattle/Tacoma	3,129	3,588	**14.6%**
Savannah	2,356	2,825	**19.90%**
Vancouver	2,150	2,510	**16.7%**
Oakland	2,050	2,330	**13.6%**
Norfolk	1,745	1,895	**8.59%**
Houston	1,797	1,812	**0.83%**
Charleston	1,181	1,364	**15.4%**
Lazaro Cardenas	600	800	**33.3%**



2010 container volume at top U.S. ports



Current State Summary

- The economic recession has slowed freight volumes worldwide
- Although not currently an issue, congestion at LA/Long Beach, combined with the geographic constraints for growth, have made alternative ports and trade routes more attractive.
- Container ships are increasing in size to take advantage of cost savings provided by economies of scale.
- Panama Canal is opening up to accommodate larger ships
- The east and gulf coast ports are making infrastructure improvements in anticipation of long-term growth

Future Supply Chain Trends and Potential Impact

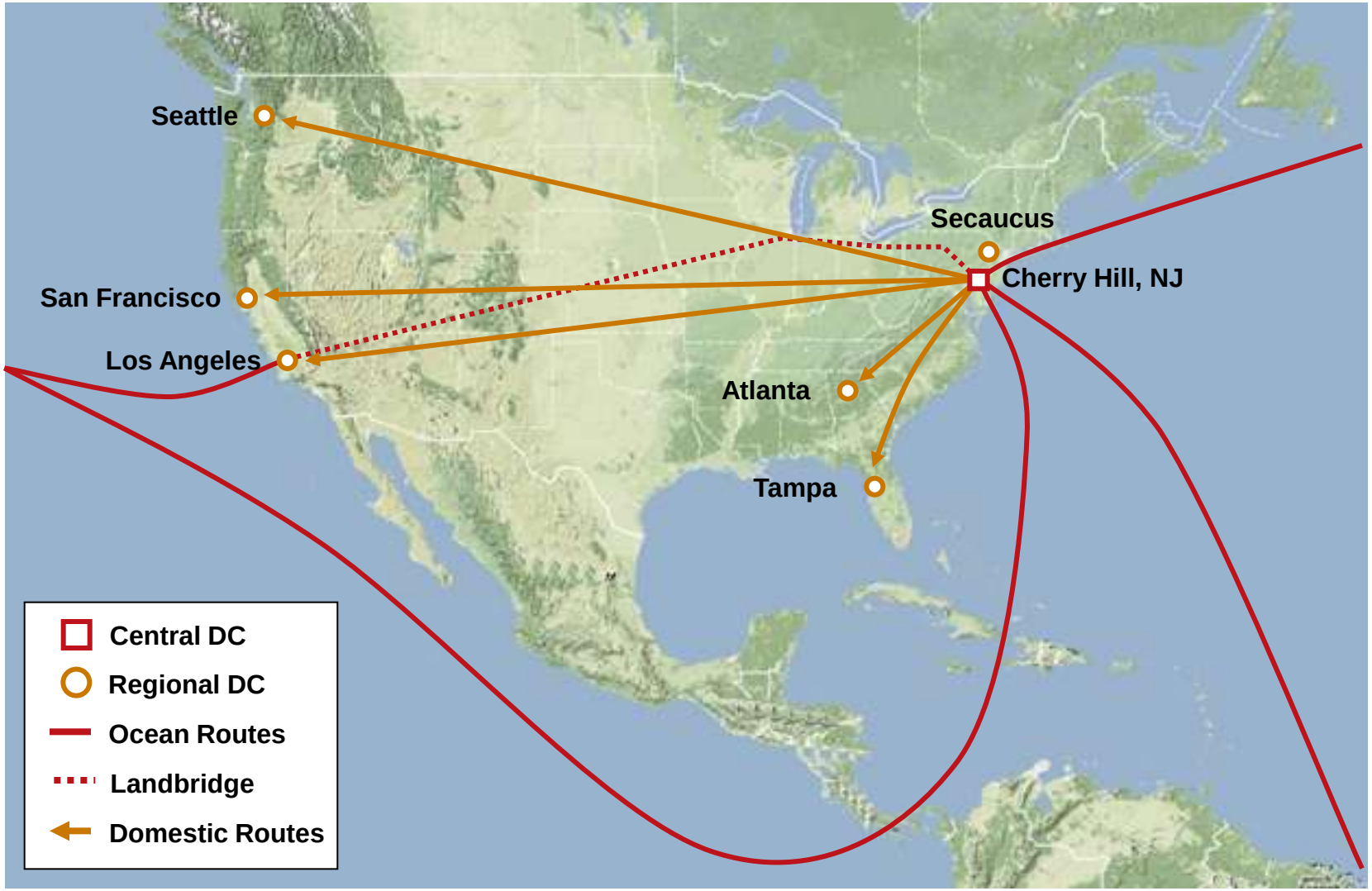
- Transportation represents one of the largest cost buckets – important to have *efficient and effective inbound* and outbound transportation
- Intermodal / rail options increasingly more attractive
  - Sustainability/cost benefits
  - Resiliency – risk mitigation
- Expansion of Panama Canal driving interest in east and gulf coast port locations
  - Closer proximity to U.S. population centers
  - Availability of less expensive land/facilities
  - Aggressive business and economic incentives
- Port diversification strategies more prevalent
- Trend to shorten supply chain – “near sourcing” (e.g., Mexico vs. China)
- Inland ports expected to increase in importance – Kansas City, Columbus, Chicago, etc.
- Availability of business & economic incentives, as well as labor issues, drive businesses to the southeast U.S.
- Increasing fuel costs will drive interest in “more/smaller” versus “fewer/larger”

The One Thing That Is Constant Is Change

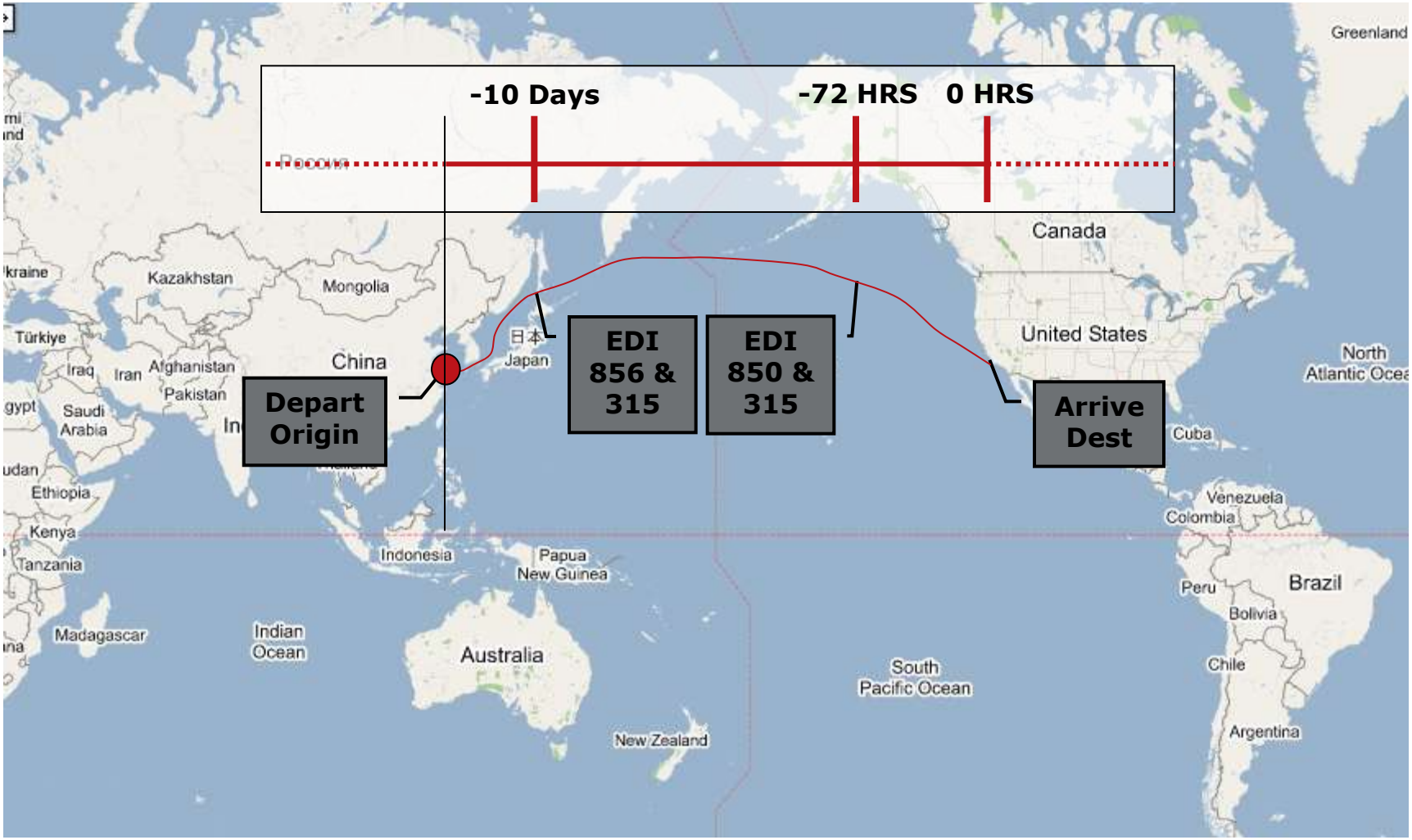
- Supply chains are increasingly global and complex
- Historically focused on cost reduction, but leveraged as a competitive differentiator by companies such as Wal-Mart, P&G, Toyota
- Supply chain security and risk are rising sharply
- Supply chain management is increasingly viewed as a core competency (versus a “necessary evil”)
- Supply chain “network” must be evaluated on a regular basis

Case Study: Global Corporate Client

Original Supply Chain network



Post-Distribution Concept



Post-distribution objectives

- Improve On-Time Efficiency from 46%
- Provide Floor Ready Distribution
- Replace Manual Process with Automated Transload Facility
- Provide Post Distribution Capability
- Track Shipments by Containers vs. Purchase Orders
- Maintain Flexibility to Provide Pre-Pack Distribution
- Provide UCC 128 Labels to the Store Level with ASN Capability

Post-Distribution Results

- On-time performance improved from 46% to 99%
- Audit accuracy greater than 99.9%
- Reduced lead time by 14 days
- Eliminated a DC resulting in $11M annual cost reductions
- Less obsolete stock
- Domestic time saving from store-ready products
- Ability to leverage cost savings of inter-modal versus over the road

Replenishment – Hybrid Concept

- Point of Sale Replenishment
- 3 Year Forecast, $300M USD Sales Increase
- Capital Investment of $300M USD
- Weekly Order Cycle
- Core Items - Expansion of Program to 40 Vendors
- RF Environment
- EDI Capabilities
- Random Reserve Storage Locations
- Zone Picking Efficiency
- Transload Process Integration
- Full Shipment Audit Functionality

Transload Calculator

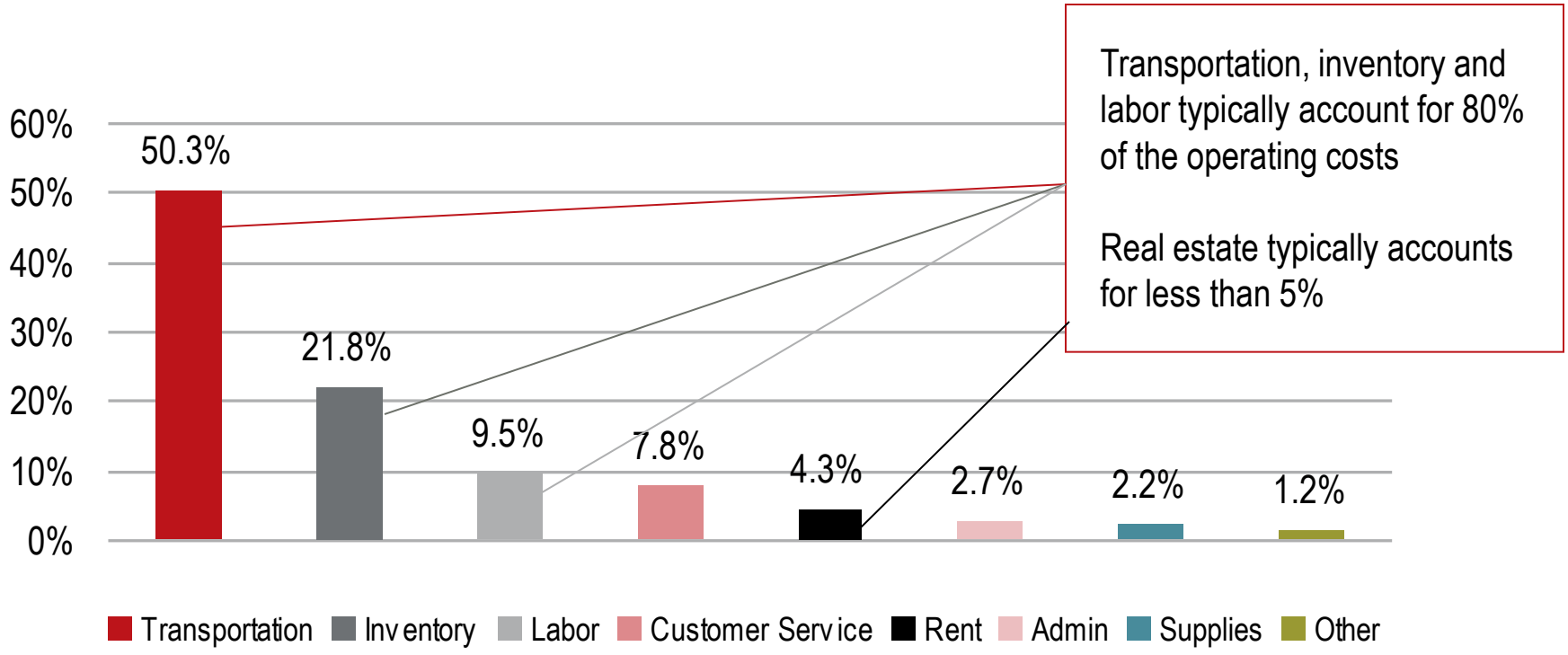
Transload Calculator

Assumed CBM per 53' van: 90

					Current						Future							
DC Location	Cont Size	Container Volume	CBM Volume	53' Volume	IPI Rate	PRESENT TOTAL COSTS	Drag from Port to NYK + CTF	Transload Rate	Port Rate	Intermodal OTR Rate	Drag from Ramp/OTR to DC	Drag from Port to NYK + CTF	Transload	Ocean port costs	Intermodal/ OTR	PROPOSED TOTAL COSTS	SAVINGS	
Mt. Vernon, IL	20'	400	9,200	102	$3,225	$1,290,000	$185	$5.25	$1,500	$1,725	$0	$74,000	$48,300	$600,000	$176,333	$898,633	$391,367	
Mt. Vernon, IL	40'	200	10,200	113	$3,225	$645,000	$185	$5.25	$1,500	$1,725	$0	$37,000	$53,550	$300,000	$195,500	$586,050	$58,950	
Mt. Vernon, IL	40'HC	300	18,900	210	$3,225	$967,500	$185	$5.25	$1,500	$1,725	$0	$55,500	$99,225	$450,000	$362,250	$966,975	$525	
Mt. Vernon, IL	45'	500	35,500	394	$3,225	$1,612,500	$185	$5.25	$1,500	$1,725	$0	$92,500	$186,375	$750,000	$680,417	$1,709,292	-$96,792	
Mt. Vernon, IL		**1,400**	**73,800**	**820**	**$3,225**	**$4,515,000**	**$185**	**$5.25**		**$1,725**		**$259,000**	**$387,450**	**$2,100,000**	**$1,414,500**	**$4,160,950**	**$354,050**	
Harrisburg, PA	20'	150	3,450	38	$3,400	$510,000	$185	$5.25	$1,500	$1,700	$0	$27,750	$18,113	$225,000	$65,167	$336,029	$173,971	
Harrisburg, PA	40'	280	14,280	159	$3,400	$952,000	$185	$5.25	$1,500	$1,700	$0	$51,800	$74,970	$420,000	$269,733	$816,503	$135,497	
Harrisburg, PA	40'HC	300	18,900	210	$3,400	$1,020,000	$185	$5.25	$1,500	$1,700	$0	$55,500	$99,225	$450,000	$357,000	$961,725	$58,275	
Harrisburg, PA	45'	200	14,200	158	$3,400	$680,000	$185	$5.25	$1,500	$1,700	$0	$37,000	$74,550	$300,000	$268,222	$679,772	$228	
Harrisburg, PA		**930**	**50,830**	**565**	**$3,400**	**$3,162,000**	**$185**	**$5.25**		**$1,700**		**$172,050**	**$266,858**	**$1,395,000**	**$960,122**	**$2,794,030**	**$367,970**	
Memphis, TN	20'	450	10,350	115	$3,300	$1,485,000	$185	$5.25	$1,500	$1,600	$0	$83,250	$54,338	$675,000	$184,000	$996,588	$488,413	
Memphis, TN	40'	600	30,600	340	$3,300	$1,980,000	$185	$5.25	$1,500	$1,600	$0	$111,000	$160,650	$900,000	$544,000	$1,715,650	$264,350	
Memphis, TN	40'HC	900	56,700	630	$3,300	$2,970,000	$185	$5.25	$1,500	$1,600	$0	$166,500	$297,675	$1,350,000	$1,008,000	$2,822,175	$147,825	
Memphis, TN	45'	200	14,200	158	$3,300	$660,000	$185	$5.25	$1,500	$1,600	$0	$37,000	$74,550	$300,000	$252,444	$663,994	-$3,994	
Memphis, TN		**2,150**	**111,850**	**1,243**	**$3,300**	**$7,095,000**	**$185**	**$5.25**		**$1,600**		**$397,750**	**$587,213**	**$3,225,000**	**$1,988,444**	**$6,198,407**	**$896,593**	
		4,480	**236,480**	**2,628**			**$14,772,000**						**828,800**	**1,241,520**	**6,720,000**	**4,363,067**	**$ 13,153,387**	**$ 1,618,613**

More than real estate…

…Understanding the *total operating cost* picture is critical to maximizing value



Source: Herbert W. David & Company: Logistics Cost & Service Report

Thank You