

THE DEMAND ECONOMY

THE CHANGING WORLD OF RETAIL AND THE
IMPACT ON SUPPLY CHAIN STRATEGY AND
INDUSTRIAL REQUIREMENTS

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JANUARY 24, 2014



OUR APPROACH IN A COMPLEX WORLD

Knowledge of Trends Support Portfolio Planning



TOP 12 SUPPLY CHAIN TRENDS: THE “DIRTY DOZEN”

Transportation Prices Rising	Right Shoring	Service Levels & Order Sizes	Interest in Sustainability
Increasing Labor Challenges	Rising E-commerce	More Containerized Imports, Capacity	Trade with South America & Asia
Increases in Inventory Levels	More Intermodal Leverage	Population Migration and Urbanization	Increasing 3PL Adoption

RETAIL AT A CROSSROADS

INVESTOR
CLIENT COUNCIL



THE NEW “DEMAND-BASED” ECONOMY

The Fundamentals are Changing in Favor of Industrial

- For 300 years, companies based their approach to business on supply-side economics
- Over the past 10 or so years, the market and economy has fundamentally shifted with access to information; power has shifted from the seller to the buyer
- Companies must focus on more demand and service, forced to compete not only on price but also on differentiating demand value
- Supply chain infrastructures of the companies trying to respond to this market shift are beginning to adapt to try to keep up

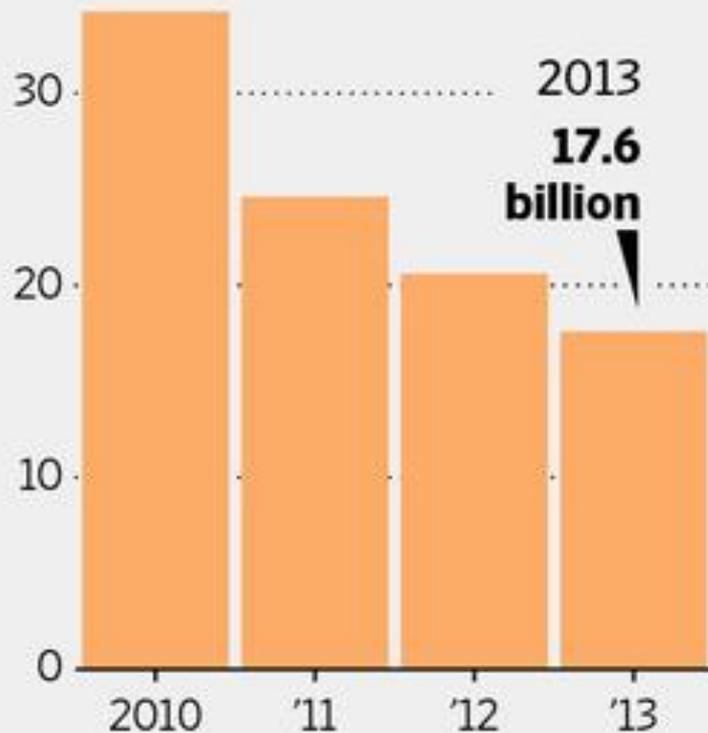
What to Expect:

Generally, the pace of change in real estate values will move more quickly than ever before, as the pace of change in consumer demand patterns ultimately is connected to the pace of change in usefulness and value of the facilities that support the fulfillment of their customers' demand.

Permanent Slowdown?

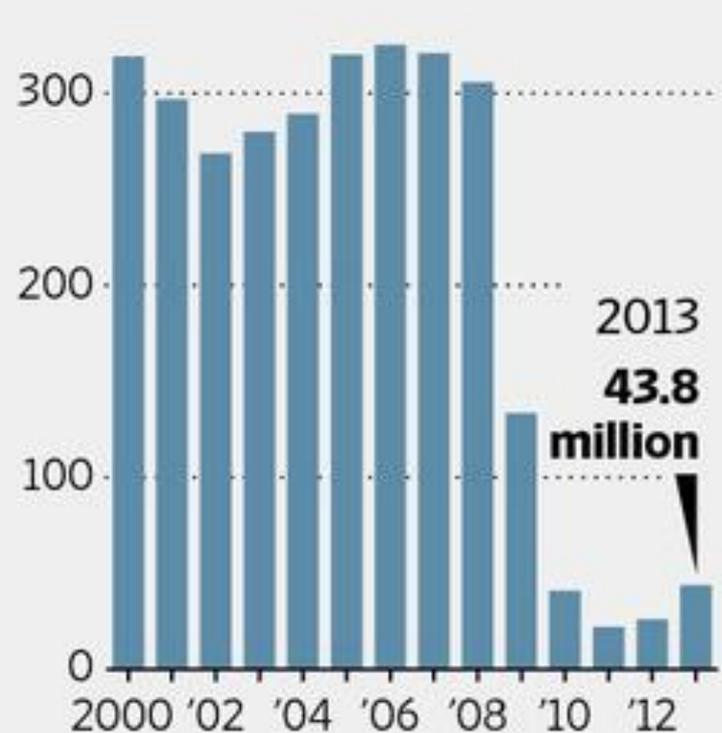
Total retail foot traffic for November and December

40 billion visits



Amount of new retail space opened annually

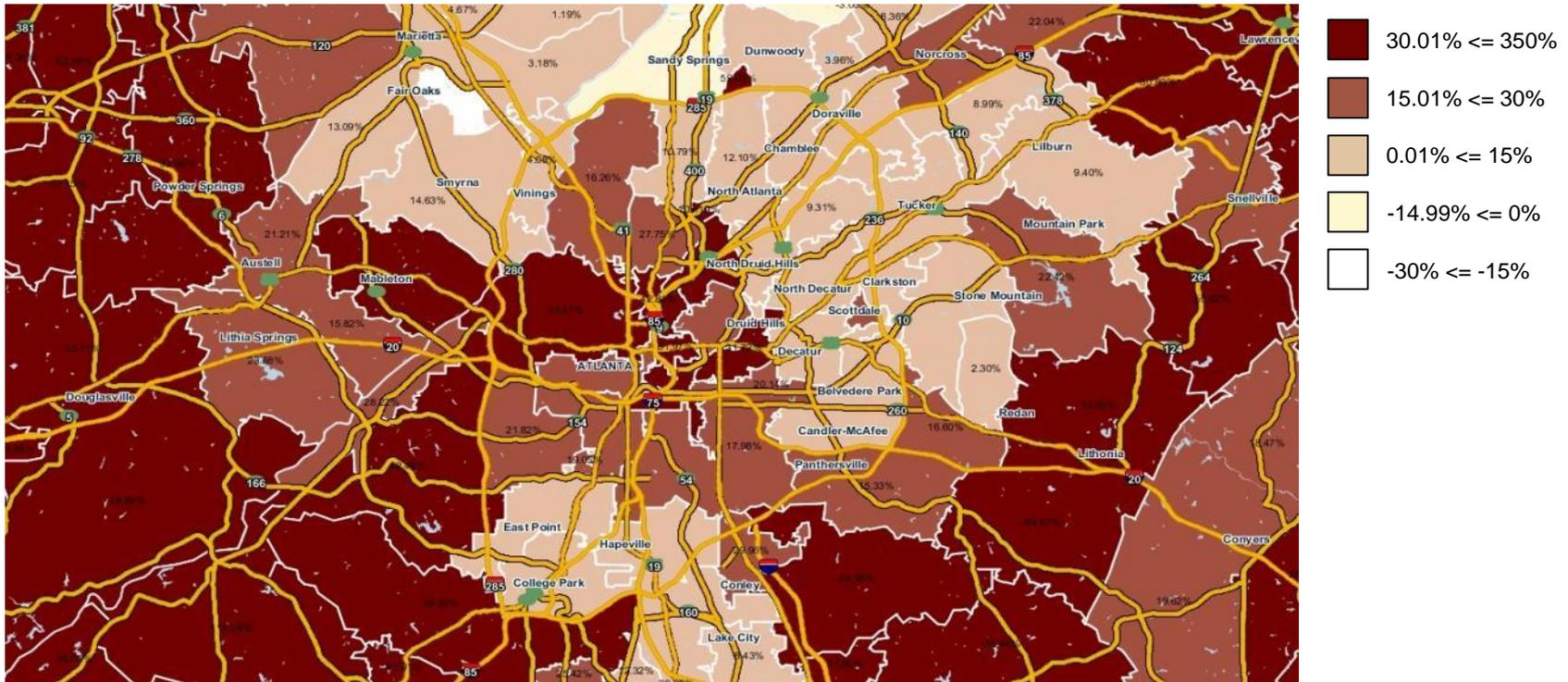
400 million square feet



URBANIZATION IN THE U.S.

The Reverse Donut

ATLANTA, GA—PERCENTAGE POPULATION GROWTH 2000-2010



Source: Nielsen PrimeLocation
Web

Population is increasing in most large cities faster than the nation as a whole, and growth is accelerating. Areas of the southwestern U.S. and those with stronger economies, in particular, reported sizable gains in 2012. 2012 was the first time that growth of large-core cities outpaced that of suburbs since the early 1900s.

RETURN OF POPULATION TO THE URBAN CORE WILL AFFECT STORE FORMATS

CHANGES IN BIG BOX RETAILING THE STORE BECOMES THE SHOWROOM



FINDING AND MANAGING THE LABOR FORCE...NOT EASY



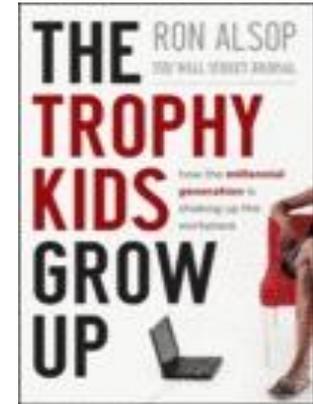
1970

2012

11.3%

30.9%

Percent of persons 25+ attaining a HS diploma and a four year undergraduate degree



- Education attainment levels are rising
- Wage premium for those with college degrees has leapt 40 percent since 1983

DRIVER	ISSUE
Aging	Large scale retirement of Baby Boomers and not enough GenXers, Gen Y to replace experience
Employee Market	People are more selective of their field and employer, and there is an employee shortage in many industries
Turnover	Tenure rates are crashing. In 1954, the average tenure of an employee with their employer was 19 years. Projected at 18 months in 2015
Generational Change	Where to attract new workers and how to manage culture is changing
Urbanization	Popularity of urban living, movement away from industrial occupations
Flat World	People are THE biggest strategic differentiator between competitors

URBANIZATION DRIVES AUTOMATION

Supports MPL and MPK (Four Stories in Some Buildings)



MINI-LOAD



CAROUSEL

AUTOMATION ORDERS WERE UP 34% IN
2012



KIVA



VERTICAL LIFT
MODULE

GLOBALIZATION

Cross Continental Retailer Expansion



GLOBALIZATION

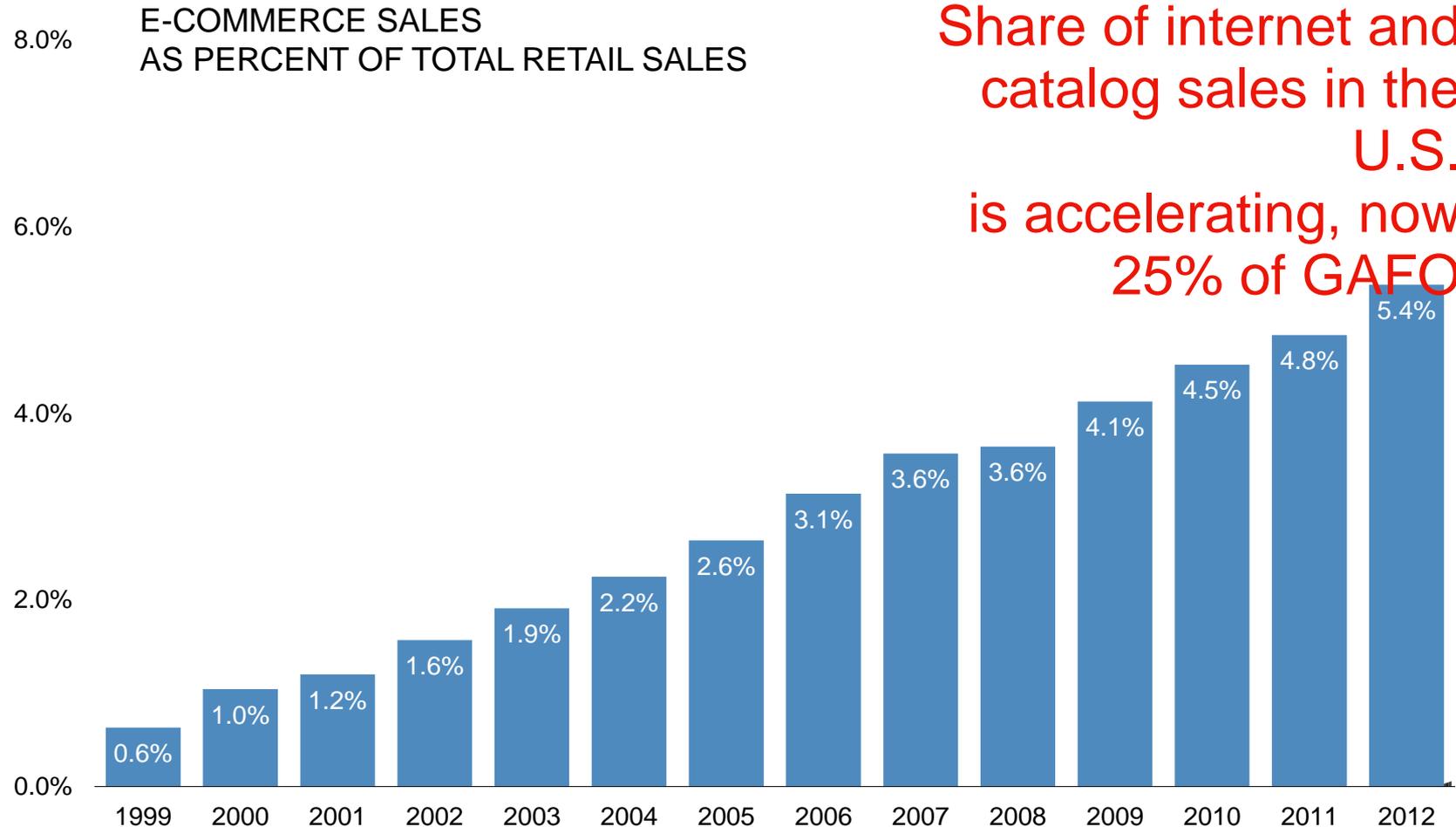
Limited Infrastructure Exists Now...Significant Opportunity Exists



OMNICHANNEL RETAILING

Internet Sales Growth

Share of internet and
catalog sales in the
U.S.
is accelerating, now
25% of GAFO

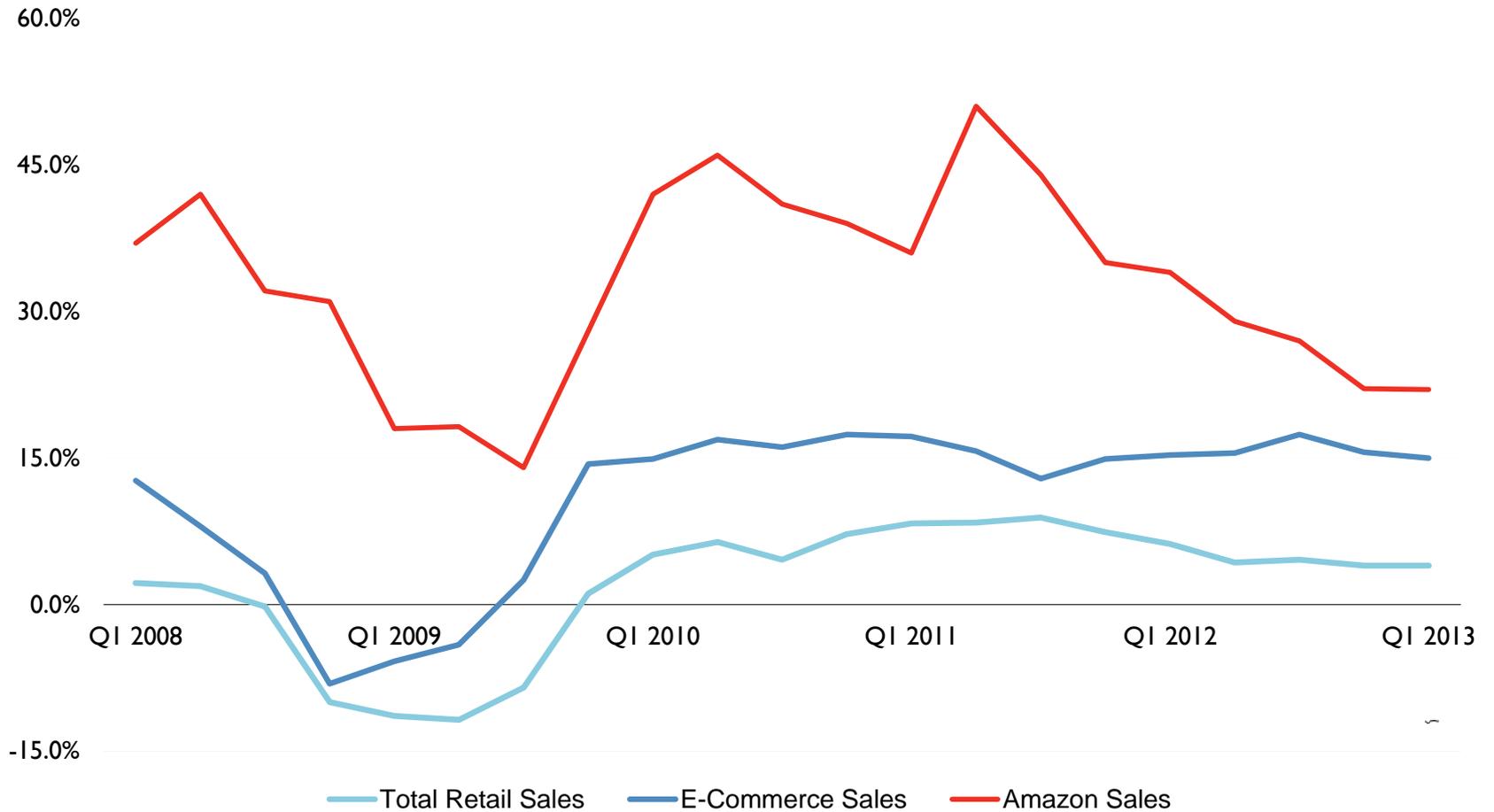


NOTE: Q4 SALES
SOURCE: U.S. CENSUS BUREAU, CUSHMAN & WAKEFIELD
RESEARCH

RETAIL SALES GROWTH

Total Retail vs. E-Commerce vs. Amazon

PERCENT CHANGE IN RETAIL SALES FROM SAME QUARTER PRIOR YEAR



SOURCE: CUSHMAN & WAKEFIELD RESEARCH

OMNICHANNEL RETAILING

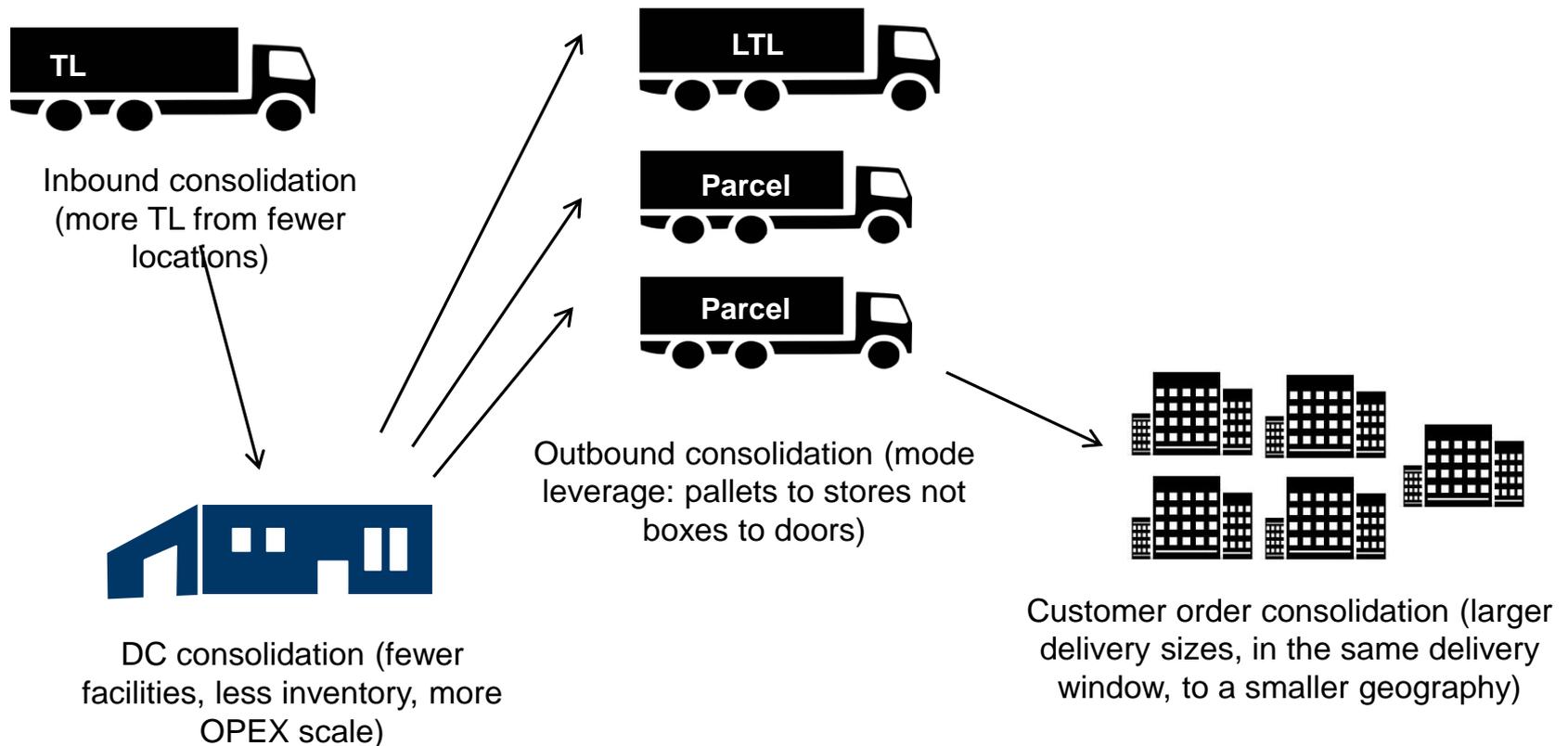
Key Issues - Industrial

INDUSTRIAL

1. Eaches level fulfillment, higher handling costs per piece, vs. store replenishment
2. Inventory availability and visibility across multiple channels (systems and working capital)
3. Parcel share rising, loss of freight scale, drives up costs, transportation costs per piece

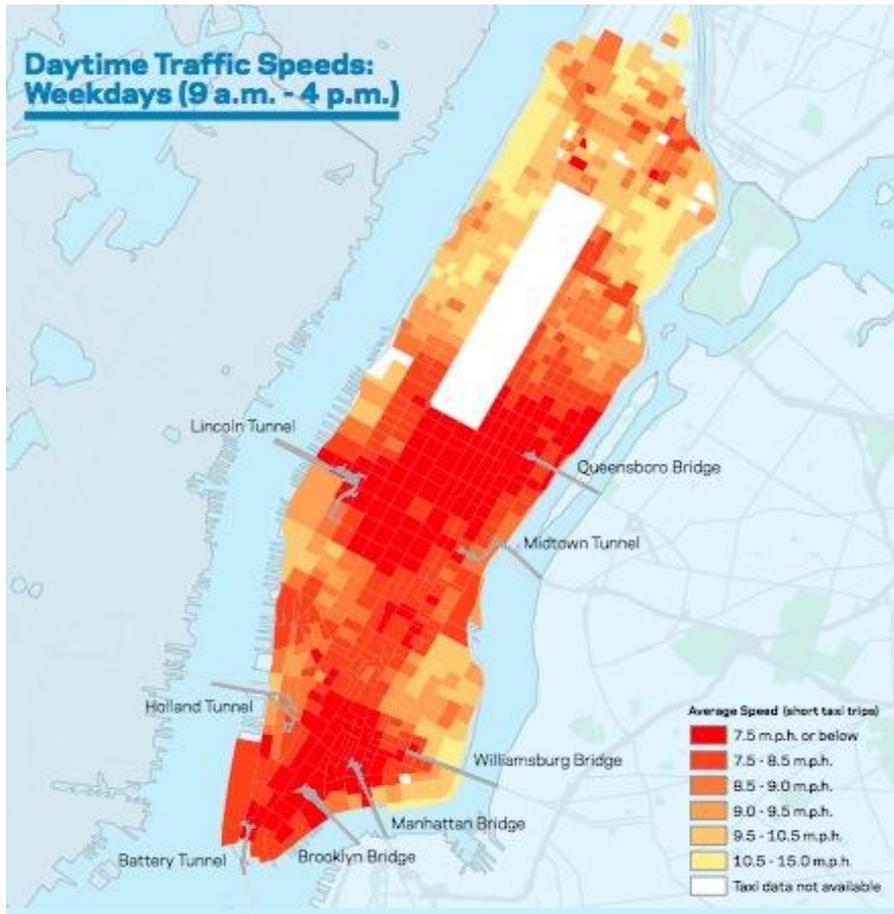


- Where is logistics scale generated?
- Where is it lost?
- How does e-comm effect this?



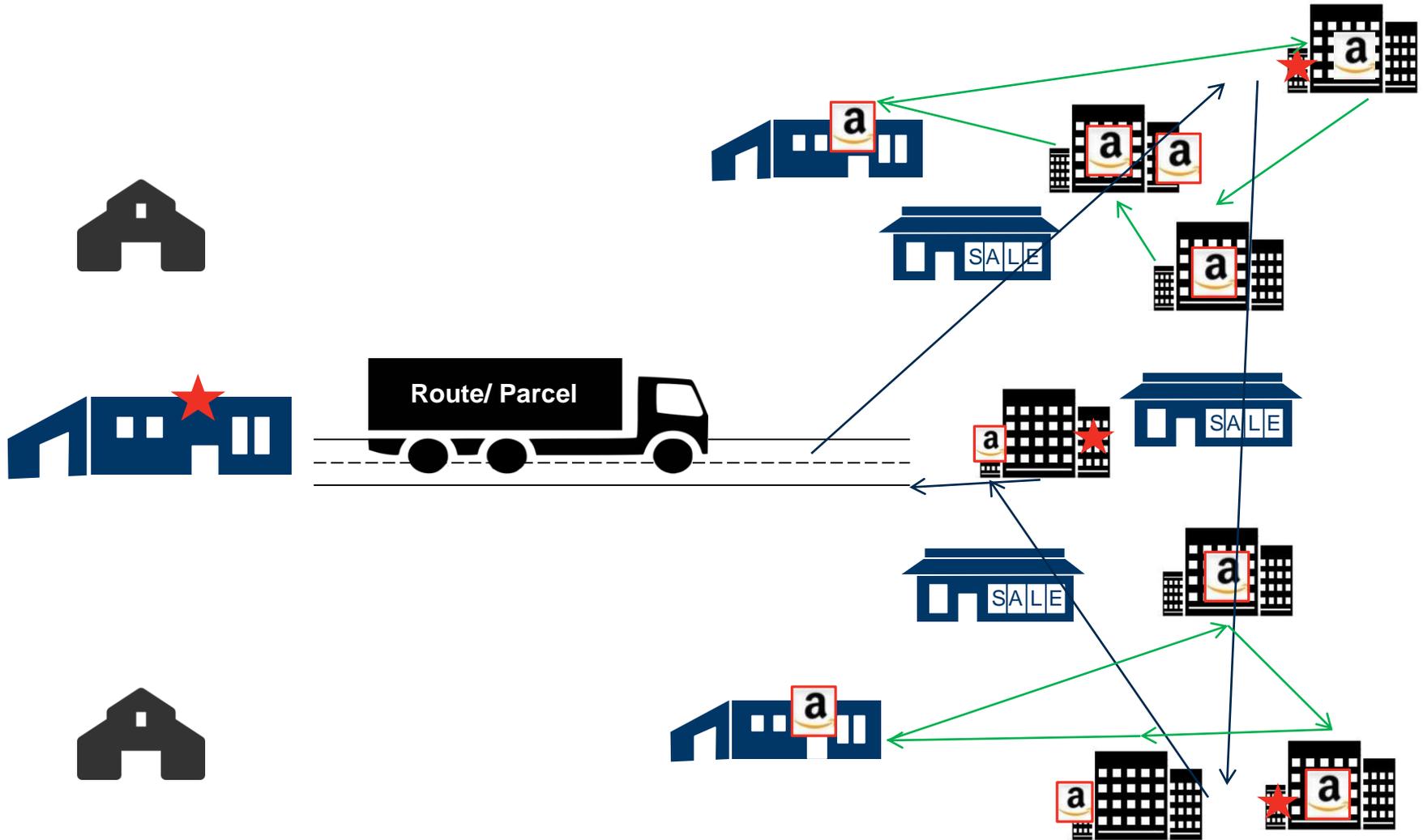
CITY ROUTE DELIVERY CHALLENGES

At Night



STEM MILES AND ROUTE MILES MATTER

Order Scale is a Must-have in Delivery Operations

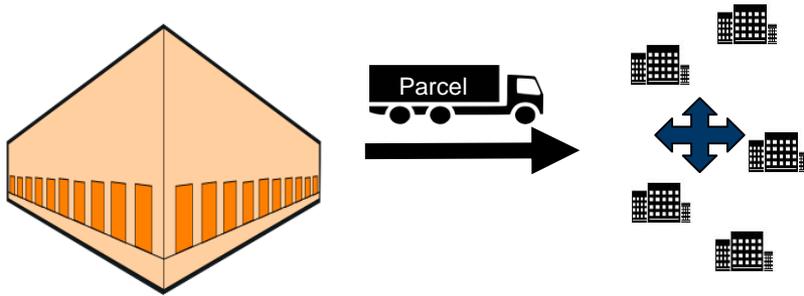


FACILITY CONFIGURATIONS LOOKING FORWARD

Depends on Size, Scale, Development Costs and Fulfillment Model

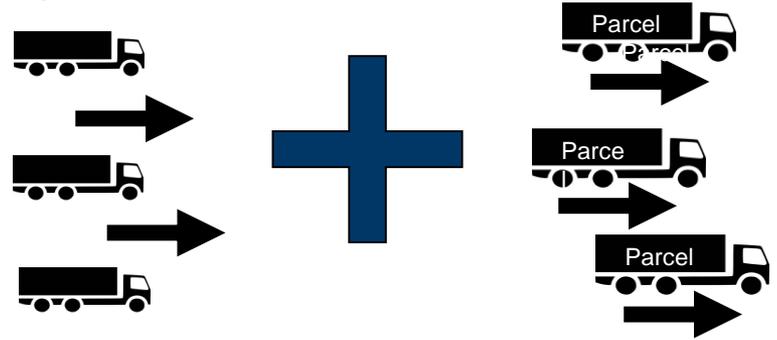
Big Box E-comm

Larger E-comm DC, highly automated, shipping DTC, in a cost viable location



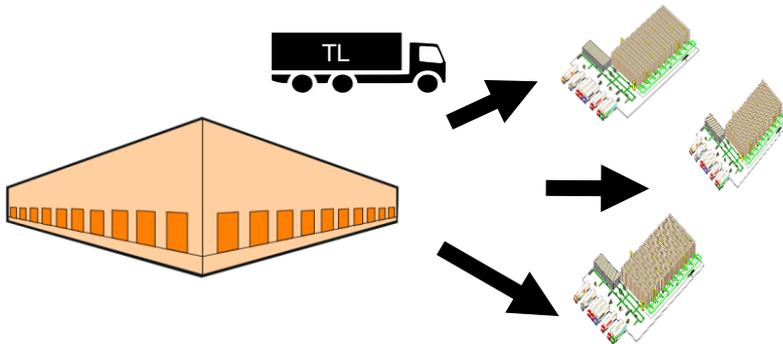
Cross Docks

Cross dock, receiving TL full of labeled orders, no automation xdock, in a higher cost location, less staffing



Tiered Model

Larger Replenishment DC, highly automated, in a cost viable location, shipping to RDCs, which are multiple, in market



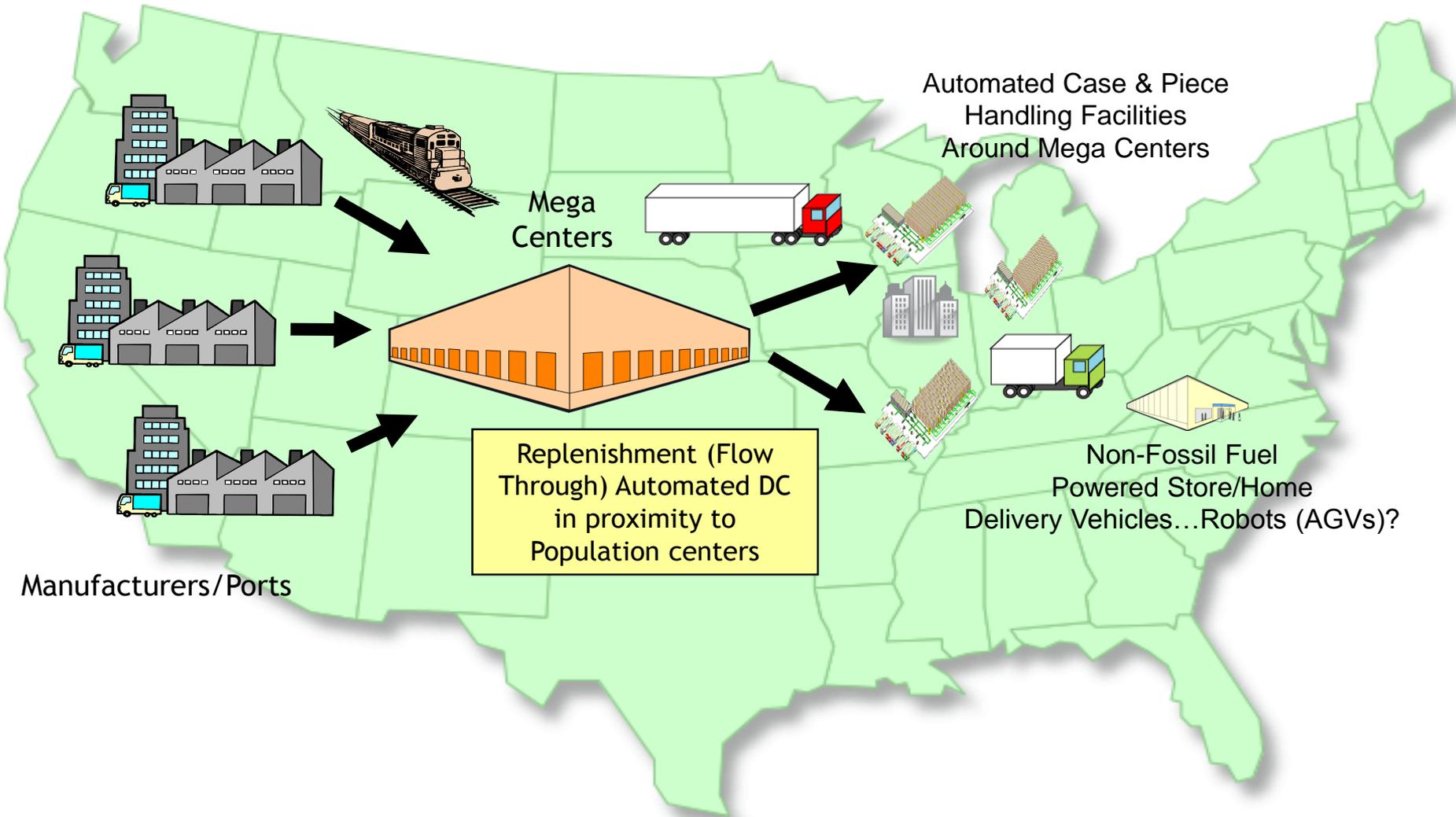
Multi Tenant

Larger E-comm DC, with stocking/picking, less automated, in a cost viable location, with a 3PL or multi-tenancy



WHAT DOES THE FUTURE LOOK LIKE?

One Idea



Southern Florida Major Logistics Transportation Network

- 5 Sea Ports
- 3 Airports (cargo)
- 3 Major Rail Roads
- 3 Interstate Highways
- The Turnpike
- 8 US Highways



INDUSTRIAL IS THE NEW BLACK

- **Where people live; how people shop and buy**
SF in stores replaced by SF in DCs; the space is more expensive
- **Inventory**
Service levels and SKU proliferation require incremental SF
Customization and personalization require incremental SF
- **Developing markets**
Growing faster; entering new economic paradigms
- **Proximity is critical**
In the freight consolidation/fulfillment space trade-off, fulfillment wins

- Negotiations



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