



Shifting Trends in Retail Transactions Impact the Supply Chain

What Retail Tells Us

- **National Retail Federation:** retail growth for 2012 should be 3.4%, down from 4.7% growth in 2011 (GDP growth 2.1%-2.4%)
- Amazon growth in 2010 was 39.5%, revenue of \$34.2 Billion
 - 52 Distribution Centers exist
 - 28 overseas order processing, fulfillment DC's
 - 17 Distribution Centers proposed/planned
 - 1/5/2012, Two new DC sites announced in VA, one in TN; 1/24/2012, new DC site announced in SC



Types of New Commerce

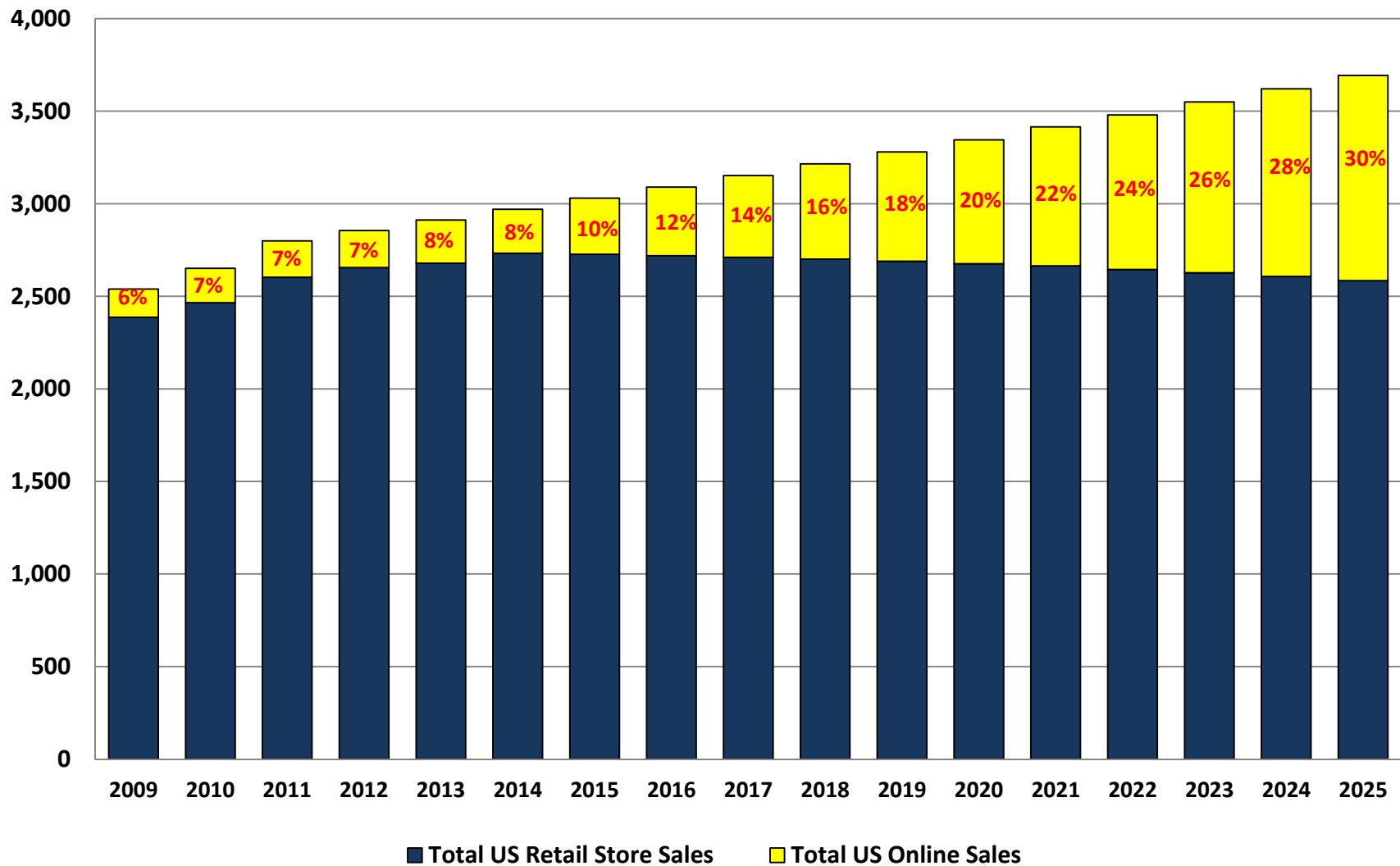
- E-Commerce = Electronic Commerce (Computer, Laptop, Desktop)
- M-Commerce = Mobile Commerce (Phone, tablets, readers etc.)
- S-Commerce = Social Commerce (Emerging segment derived from Social Networks such as Facebook, Twitter, Groupon, etc.)

Projected Impact of E-Commerce

- By 2025 it has been estimated that Ecommerce will represent 30% of all Retail Sales and account from *2.7 trillion in total sales* (Source: Dematic)
- Within 5 years, the percentage of sales closed at physical stores vs. alternative sales channels (E-Commerce, M-Commerce and S-Commerce) will drop from 91% (today) to 76% (Deloitte Study)

Projected Online U.S. Retail Sales as a Portion of Total US Retail Sales 2009-2025

In Billions of \$



E-Commerce Leaders

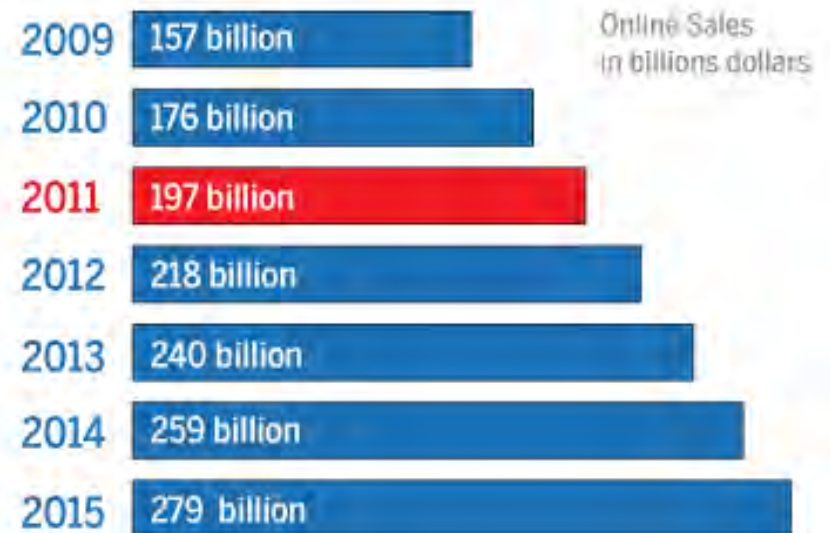
- Next to Amazon, E-Commerce leaders are:
 - Staples, \$10.2b, 4.1% growth in 2010
 - Apple, \$5.2b, 23.0% growth in 2010
 - Dell, \$4.8b, 6.0% growth in 2010
 - Office Depot, \$4.1b, 0.0% growth in 2010
 - Walmart, \$4.0b, 17% growth in 2010
- (internetretailer.com, Top 500 List, 12/2011)

USA E-Commerce Sales Projections

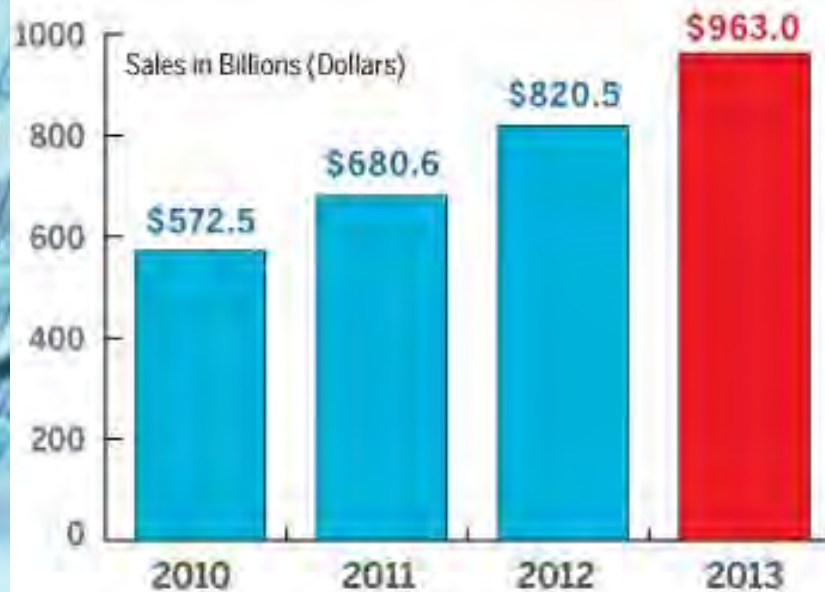
U.S. E-retail Sales 2009-2015

U.S. e-retail sales will grow by 10% a year to \$279 billion by 2015, projects Forrester Research. In 2015, Forrester predicts, the web will account for 11% of all retail sales, 15% in groceries are excluded.

Source: Forrester Research,
February 2011 (sales in billions)



Global E-Commerce Sales Projections

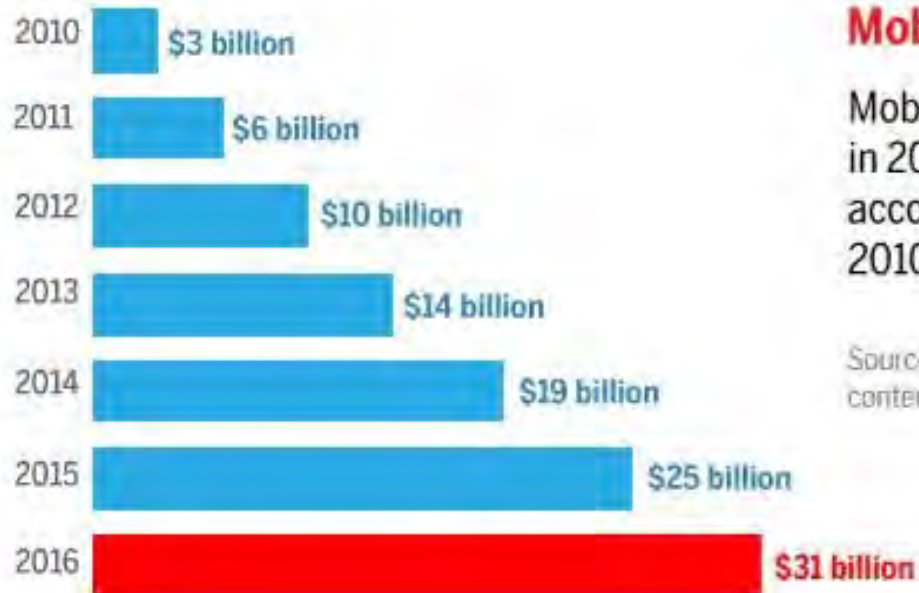


Global e-commerce sales are growing at more than 19% a year

Worldwide retail web sales will reach nearly \$1 trillion by 2013, predicts Goldman Sachs. E-commerce is growing at 19.4%, the investment bank says.

Source: Goldman Sachs; Sales in billions of dollars.

Global Mobile Commerce Sales Projections

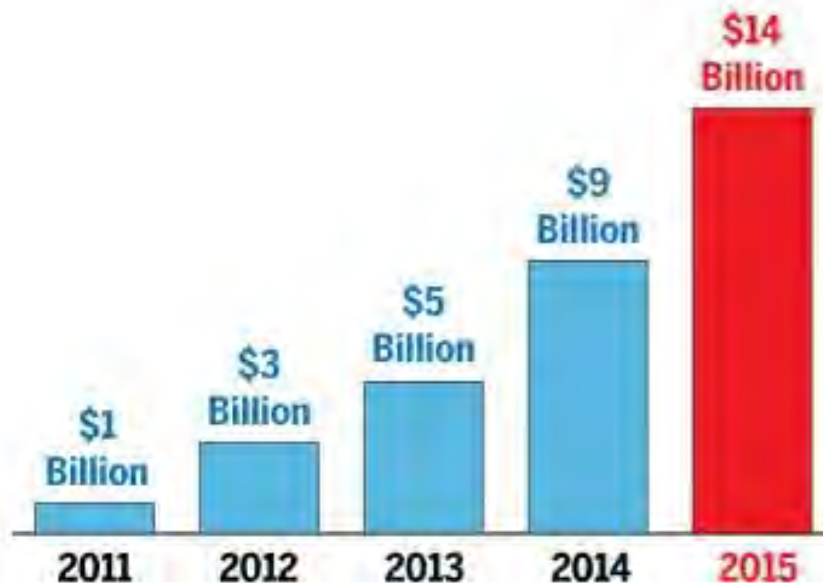


Mobile Commerce Sales: 2010-2016

Mobile commerce sales will grow from \$3 billion in 2010 to \$31 billion in 2016. M-commerce sales accounted for only 1% of e-commerce sales in 2010, but will increase to 7% in 2016.

Source: Forrester Research Inc., sales of merchandise excluding digital content such as ring tones and mobile games.

Social Commerce Sales Projections



U.S. social commerce sales, 2011-2015

Sales of physical goods through online social networks will grow by 93% per year in the U.S., reaching \$14 billion by 2015, predicts research and consulting firm Booz & Co. A Booz survey in 2010 found 27% of shoppers were willing to buy through social media.

Source: Booz & Co.

Shipping's Role in E-Commerce

- Fulfillment “promise” stipulates site selection and access to transportation networks and hubs
- “Free shipping” retains transactions (3/4 of consumers abandon shopping at checkout if shipping is not free)
 - Shipping solutions include “retail shipping clubs based on purchase thresholds, linking free shipping to minimum orders or certain products (higher margins), customized delivery or providing free shipping on two or three day delivery solutions

Driving Distribution Centers Inland

- Online retailers look for smaller and more automated warehouses
- Facilities require higher skilled employees
- Often retailers require separate store replenishment and ecommerce fulfillment centers due to:
 - Divergent labor
 - Technology requirements
 - Transportation coverage requirements

Why Does all this Matter?

- The logistics systems must continue to evolve to support this new commerce channel,
 - Buildings, building configurations, processing systems
 - Truck-load, less-than-truck load distances
 - Zone-skipping
 - Multiple air hubs – Truck Hubs
 - Customized deliver, disposal of products
 - And new job opportunities (WSJ: wanted E-Commerce chiefs: salary ranges \$300k-500k according to top recruiters (11/15/2011))

How Are They Making It Work?

- Single DC supports national store replenishment and E-Commerce order fulfillment
- Stand alone DC(s) for store replenishment and stand alone E-Commerce fulfillment centers (in different locations)
- Third-party sourcing for all aspects of fulfillment and transaction support
- Third-party sourcing for selected goods to enhance product launch, seasonal products

E-Commerce Key Criteria for Site Selectors

- Avoidance of Nexus Tax
- Proximity to major markets
- Inexpensive land
- Ample seasonal/surge labor pool
- Reasonable proximity/access to interstates
- Local incentives
 - Tax breaks
 - FTZ

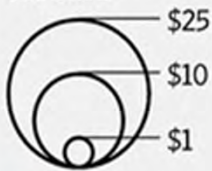
Mapping the Web | Amazon seeks to minimize sales-tax collection across the U.S.

Amazon designations*

- Bad states
- Neutral states
- Safe states

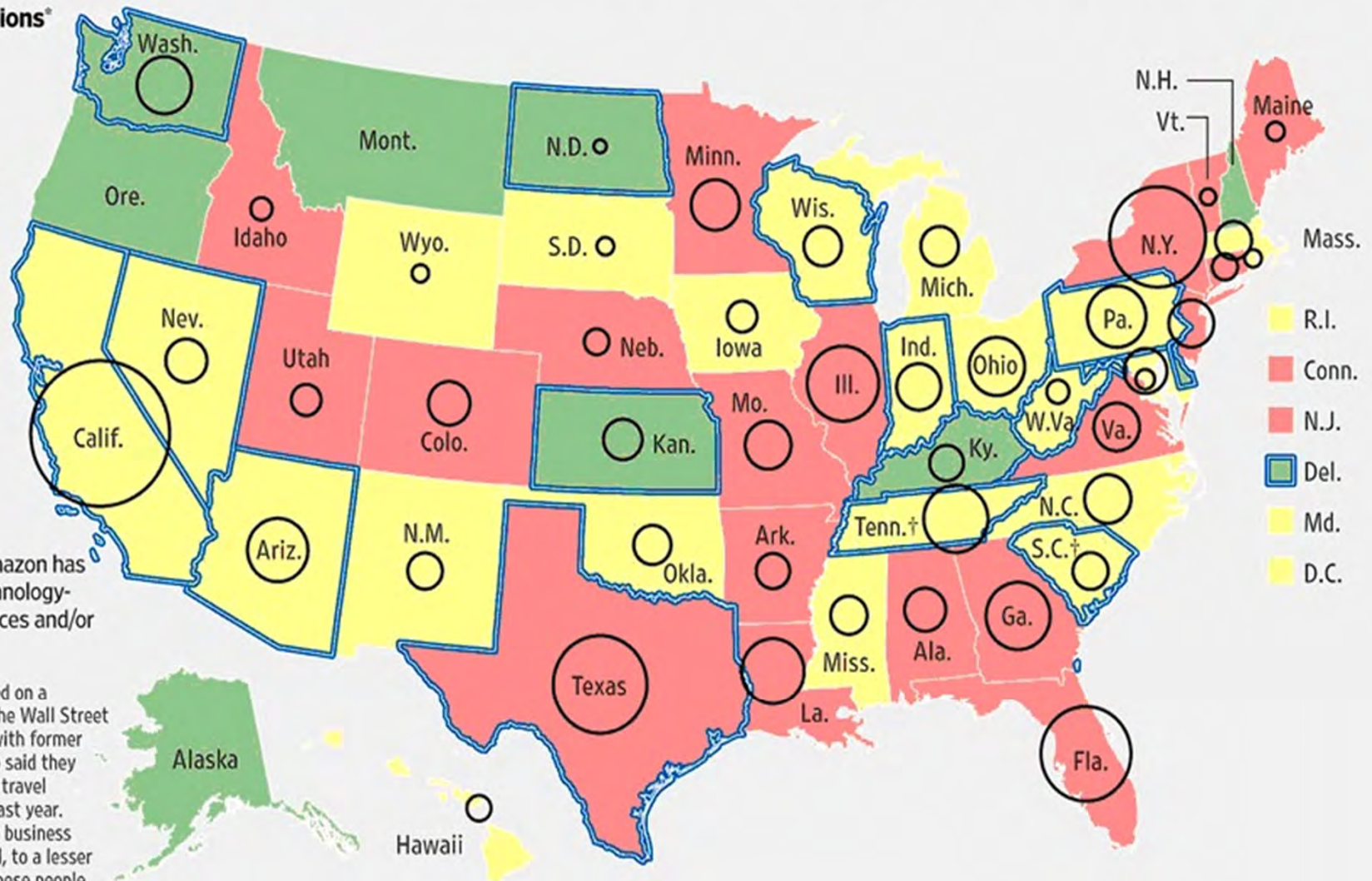
Lost tax revenue

Estimated amount of state and local taxes lost from e-commerce, 2007-12, in billions



- States where Amazon has warehouses, technology-development offices and/or call centers

*This illustration is based on a document reviewed by The Wall Street Journal and interviews with former Amazon employees, who said they abided by the company's travel restrictions within the past year. Amazon limits employee business travel to 'bad' states and, to a lesser extent, neutral states, these people said. They said employees can go to 'safe' states. †Warehouses are planned.



Note: States without circles have no sales tax

State sales tax rates

No sales tax



Less than 5%



5% to 6%



More than 6%



'Amazon laws'

At least 10 states have passed 'Amazon laws' designed to make the company and other online retailers collect sales taxes. The laws vary by state.

Arkansas, Connecticut, Illinois, Vermont** (enacted 2011); **North Carolina, Rhode Island** (2009); **New York** (2008): Online retailers must collect sales taxes if they have online affiliates, or advertising partners, based in the state.

California (2011): Online retailers must collect sales taxes if they have online-advertising partners based in the state, or if they have a subsidiary that develops products for their retail operations.

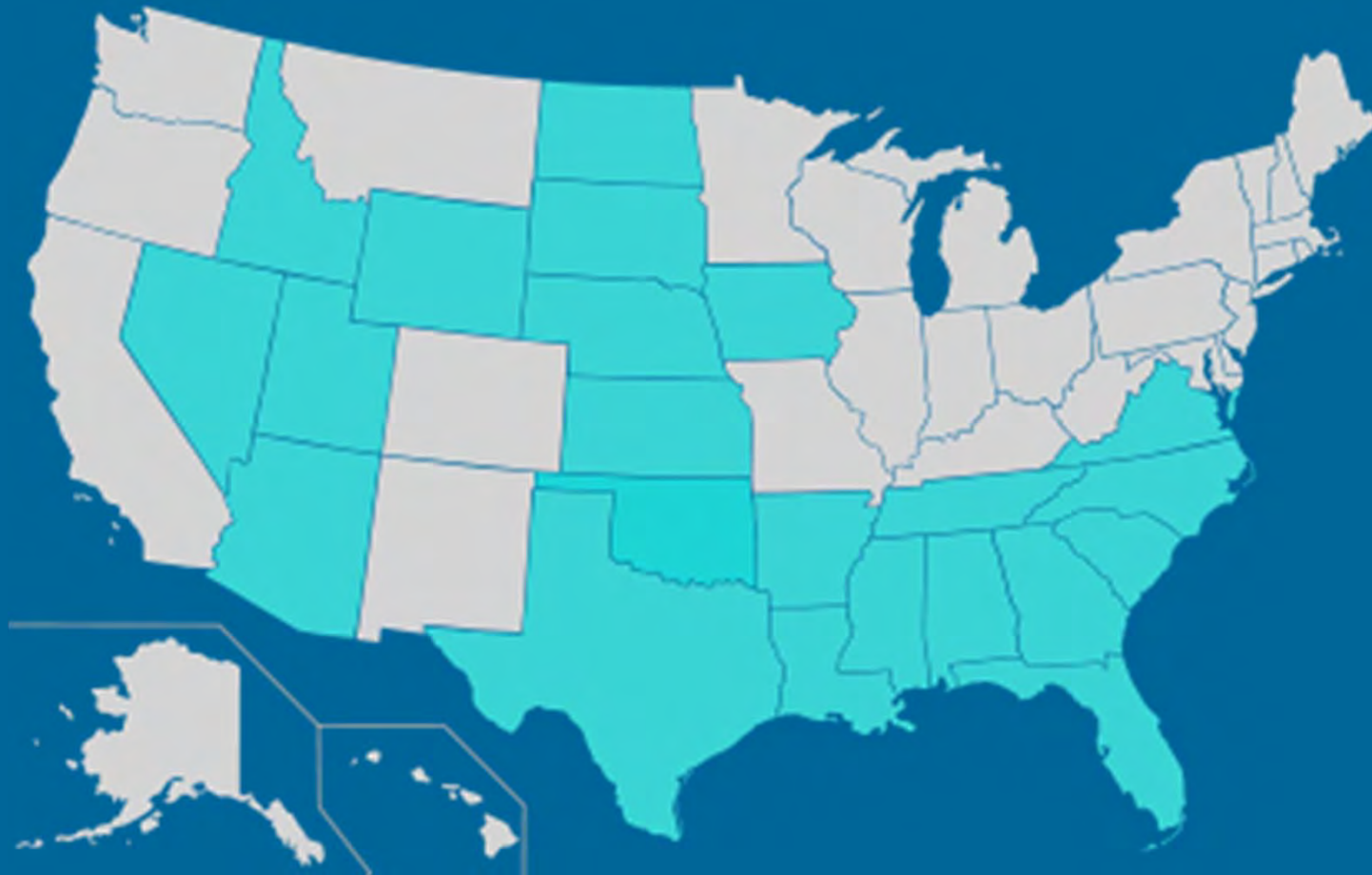
Colorado (2010): Online retailers would have been required to either collect sales taxes or give state officials information about the purchases Colorado residents made. A federal judge stopped the enactment of this law in January 2011.

Texas (2011): Online retailers must collect sales taxes if they own at least 50% of a subsidiary that supports retail operations. Amazon has a Dallas-area warehouse, but has said it will close it because of the state's 'unfavorable regulatory climate.'

**This part of the Vermont law goes into effect only if 15 other states adopt this online-affiliate legislation.

Sources: Amazon; University of Tennessee report; Federation of Tax Administrators; WSJ research

U.S. Right to Work States





Locations Where ECFC Are Likely to Locate

- States that do NOT tax internet sales
- States with high levels of labor, full and part-time
- States with right to work laws
- States that house both air and ground UPS/FedEx hubs
- States where “zone-skipping” is available to major population centers
- States that offer real property or other tax incentives
- States with a robust FTZ program

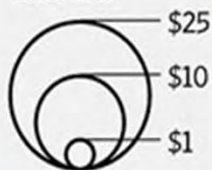
Mapping the Web | Amazon seeks to minimize sales-tax collection across the U.S.

Amazon designations*

- Bad states
- Neutral states
- Safe states

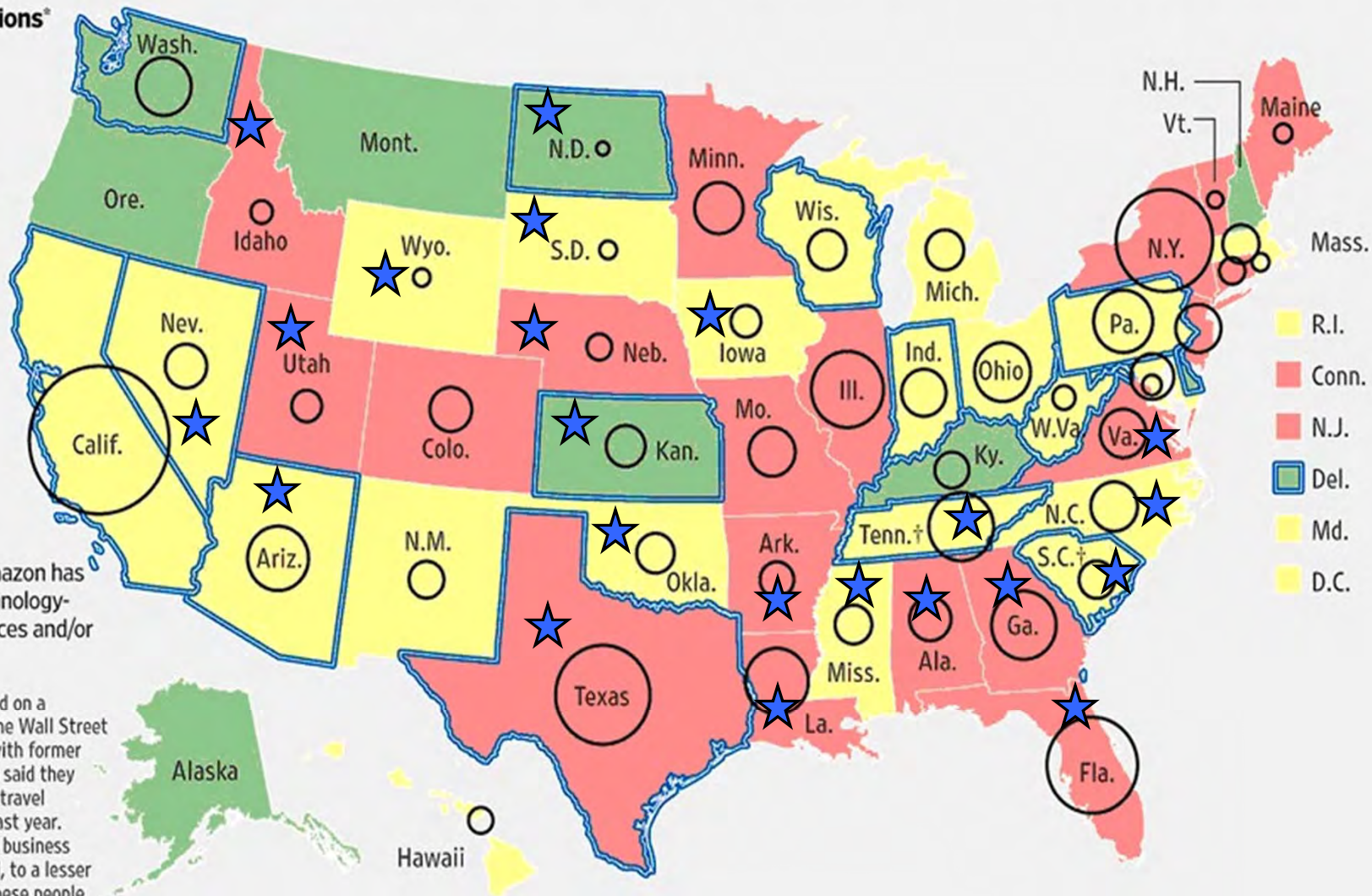
Lost tax revenue

Estimated amount of state and local taxes lost from e-commerce, 2007-12, in billions



- States where Amazon has warehouses, technology-development offices and/or call centers

*This illustration is based on a document reviewed by The Wall Street Journal and interviews with former Amazon employees, who said they abided by the company's travel restrictions within the past year. Amazon limits employee business travel to 'bad' states and, to a lesser extent, neutral states, these people said. They said employees can go to 'safe' states. †Warehouses are planned.



★ Reflects Right to Work States

Note: States without circles have no sales tax

Locations where ECFC are NOT likely to locate

- States which tax E-Commerce
- States with high levels of unionized labor
- States which do not have the Fed-Ex, UPS ground/air ops hubs
- States with expensive labor

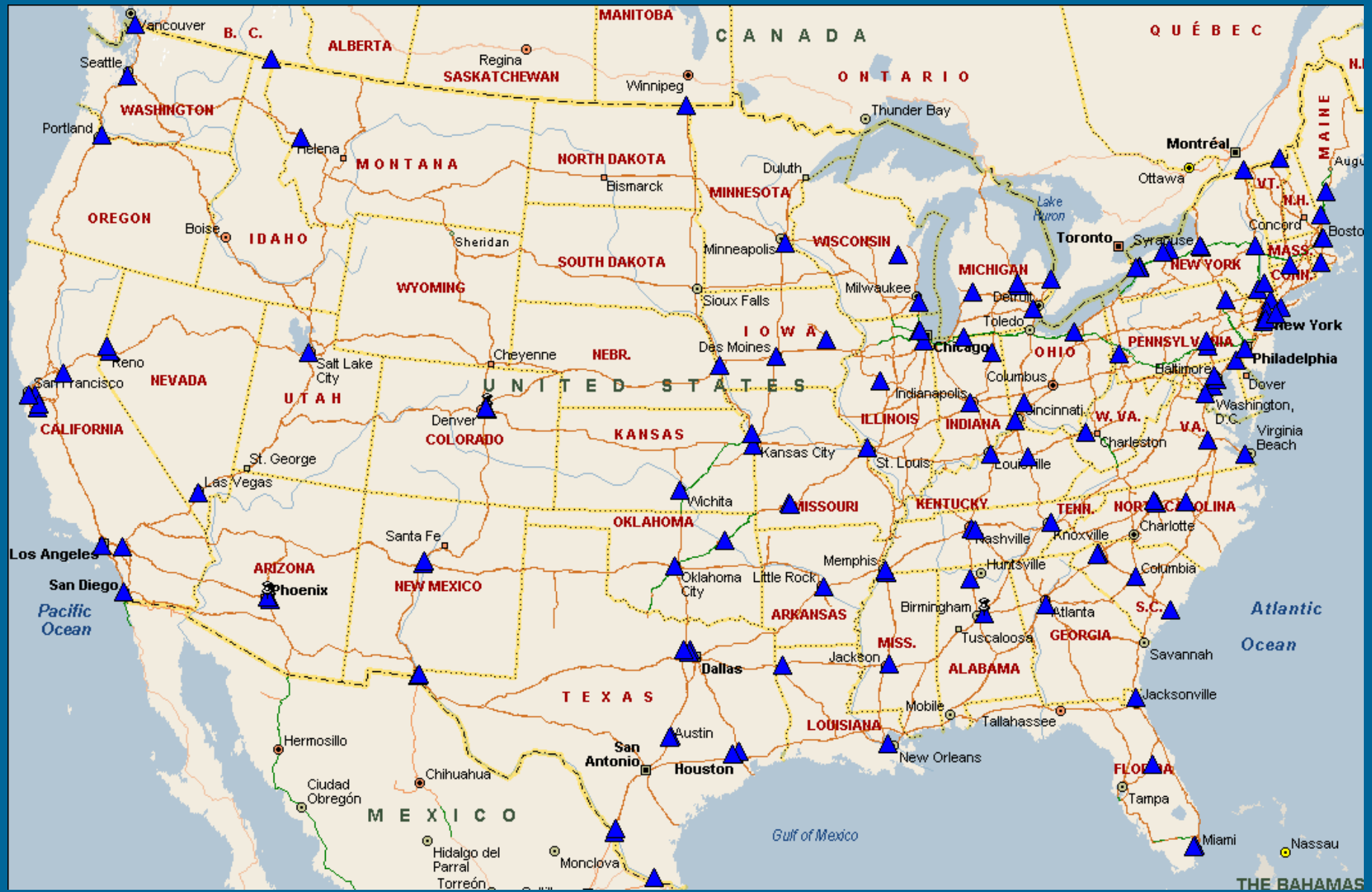
FedEx SmartPost Service Overview

- **Coverage:** 100 percent of U.S. residential addresses, including P.O. boxes, APO and FPO destinations, Alaska, Hawaii, Puerto Rico, Guam, U.S. Virgin Islands, and all other U.S. territories
- **Transit Times:** Typically 2 to 7 business days within the contiguous U.S., based on the final destination ZIP code
- **Package Specifications:** Maximum weight is 70 lbs; maximum length and girth is 130 inches
- **FedEx SmartPost Shipment Status Tracking:** Full visibility on fedex.com
- **Solution used by online retailers, catalogers, fulfillment houses and direct marketers:** Cost-effective means of shipping low-weight packages to residential customers. Offering:
 - State-of-the-art technology
 - 25 strategically located hubs
 - Dock-door to doorstep pickup and delivery
 - Zone-skipping expertise

FedEx SmartPost Hub Network



UPS Supply Chain Solution Locations





Successful Companies Sustaining their Competitive Position



Academy Sports and Outdoors

- Second distribution center opened in 2007 outside Macon, GA to support store growth in southeastern US
- In 2011, started an E-Commerce platform out of the Macon warehouse (mezzanine) in order to support national E-Commerce
 - Maintained current store fulfillment from Houston and Macon DC's to 130+ stores
 - National E-Commerce fulfillment SKU demand vastly different from typical store requirements

Academy DC in Macon GA.



Ahold USA Collaborative Warehousing

- Consumer goods, grocery re-stocking
 - 400 manufacturing and retail stores participants
 - Sustainability
 - Shared Supply Chains
 - Savings (arrow) up 30%
 - Service (arrow) up 4%
 - Sustainability (arrow) up 50%
 - Change the store restocking order from a truckload to a case
 - Change the order delivery cycle from days to hours while providing store delivery at truckload prices

Collaborative Warehousing

- 400,000 pallet positions from disparate manufacturers
- Manage 20,000 unique items
- Transportation network supports inbound (to shared warehouse) and outbound truckloads to stores
- Pallets are constructed based on store aisle sequence requirements





Collaborative Benefits

- Eliminates:
 - Stand alone manufacturer's multiple distribution centers which once supported grocery distribution centers
 - Transportation from manufacturer to manufacturer stand alone distribution center
 - Transportation from manufacturer distribution center to store distribution center

ES3 Services, Ahold USA

- Stores located in PA, VA, MD, WVA, DE and DC
- 360 Stores located within 258 miles of DC in Carlisle, PA
 - Scratch rates below 0.25%
 - On-time delivery to stores over 98%
 - 6% higher cube delivery to stores (over benchmarks before collaborative system)
 - Pallet construction significantly improves in-store labor productivity





What Does All of this Mean to the Logistics Industry

- Pace of change will continue to increase
- Supply chains will continue to be complex
- Globalization in all industries likely to continue to occur
- Growth in e/m/s commerce will lead the retail and logistics industries

QUESTIONS ?

Thank You

Curtis D. Spencer
President & CEO
IMS Worldwide, Inc.
www.imsw.com

