



LOGISTICS 2009

February 8-11, 2009 · Gaylord Texan · Dallas, Texas



Title Sponsor :



Managing Supply Chain Complexity: Direct-to-Consumer Logistics

Kevin P. Hourican
SVP of Logistics Direct-To-Consumer
Email: kevin.hourican@macys.com

Agenda

- **Macy's direct overview**
- **Supply chain issues / challenges**
 1. How do we influence vendors when our requirements contradict the needs of our stores?
 2. What should we stock in our DCs vs. outsource to vendors?
 3. How do we support our company's sustainability initiatives without increasing operating expense?

Macy's Inc. Direct To Consumer

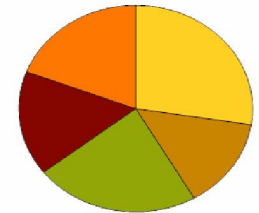
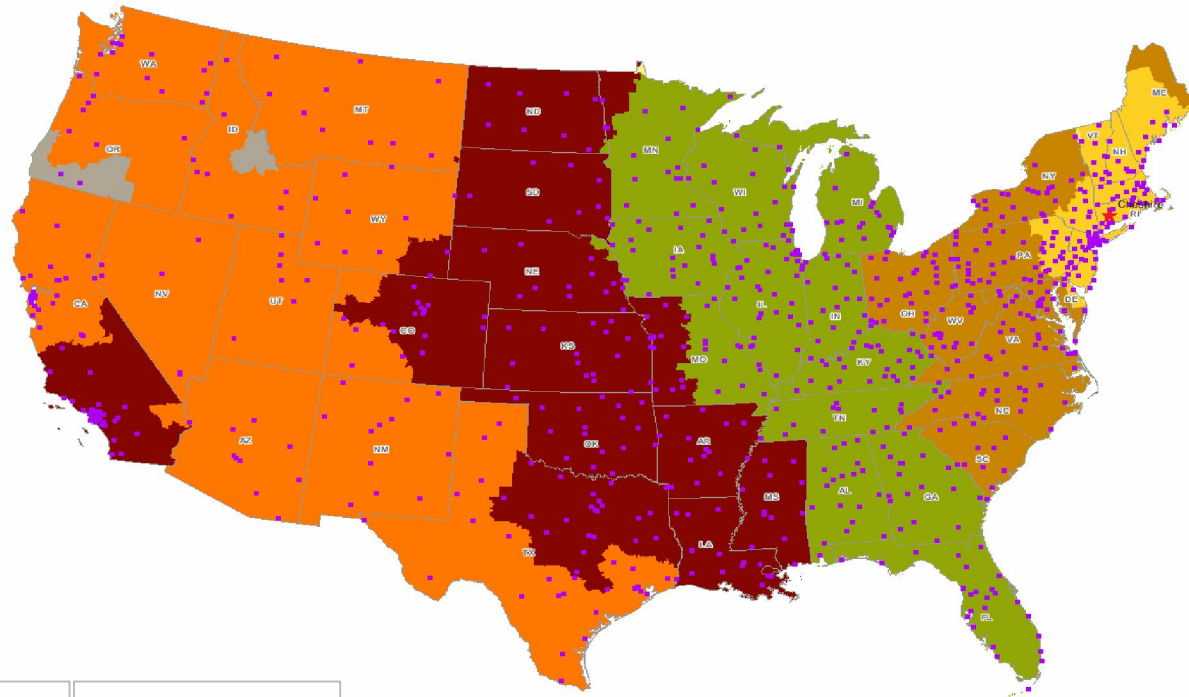


Who we are

- Billions in sales
- Millions of unique customers
- Millions of discrete shipments
- Millions of opportunities to exceed expectations, or lose a customer

Macy's Fulfillment - 2006

Federated Cheshire Baseline Ground Service Days

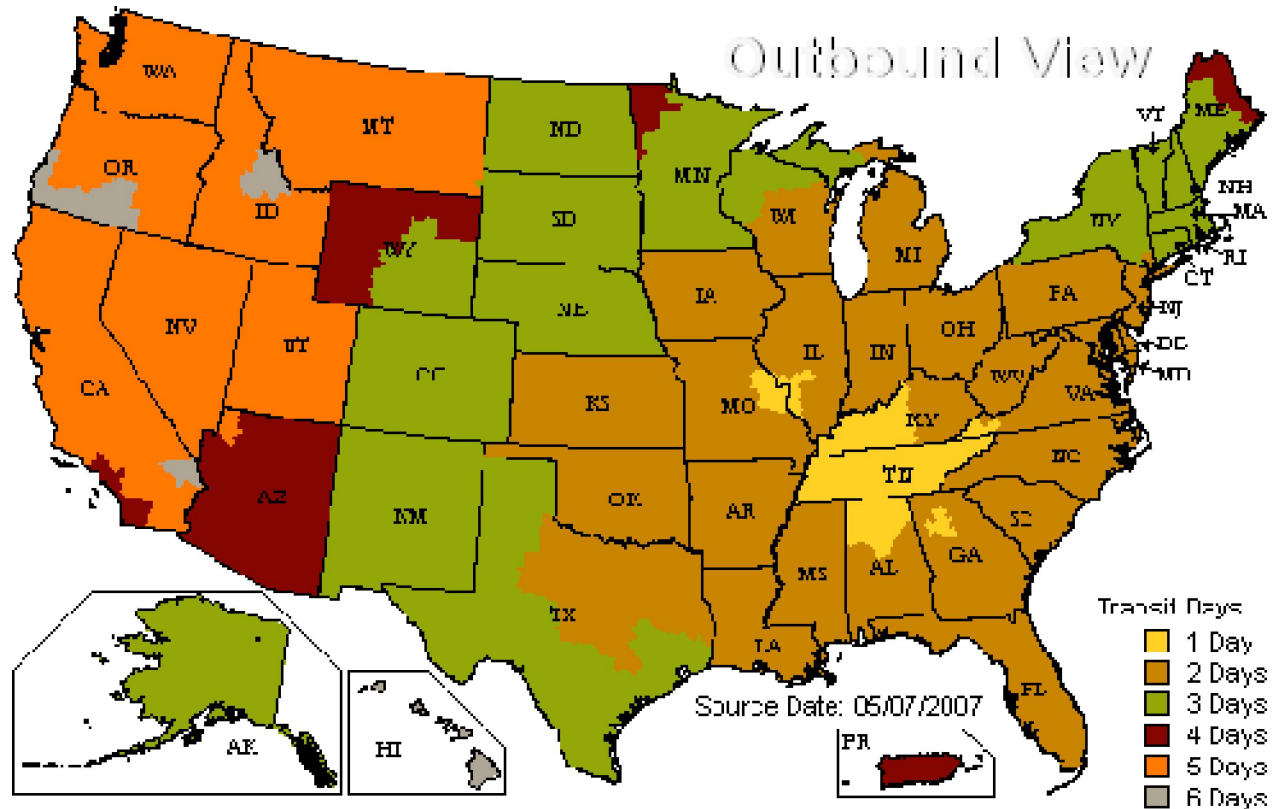


Packages	
1 Day	44726 28%
2 Days	22724 14%
3 Days	36830 23%
4 Days	26512 16%
5 Days	30940 19%
6 Days	197 0%

Origin(s):
06411 Cheshire

Customers mapped to 3-digit zip code due to large number of customers.
PSI Service Map colors are indicative of exact scheduled days in transit for UPS ground packages shipped within the 50 states and Puerto Rico. Run Date: 03/29/2007

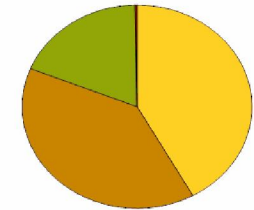
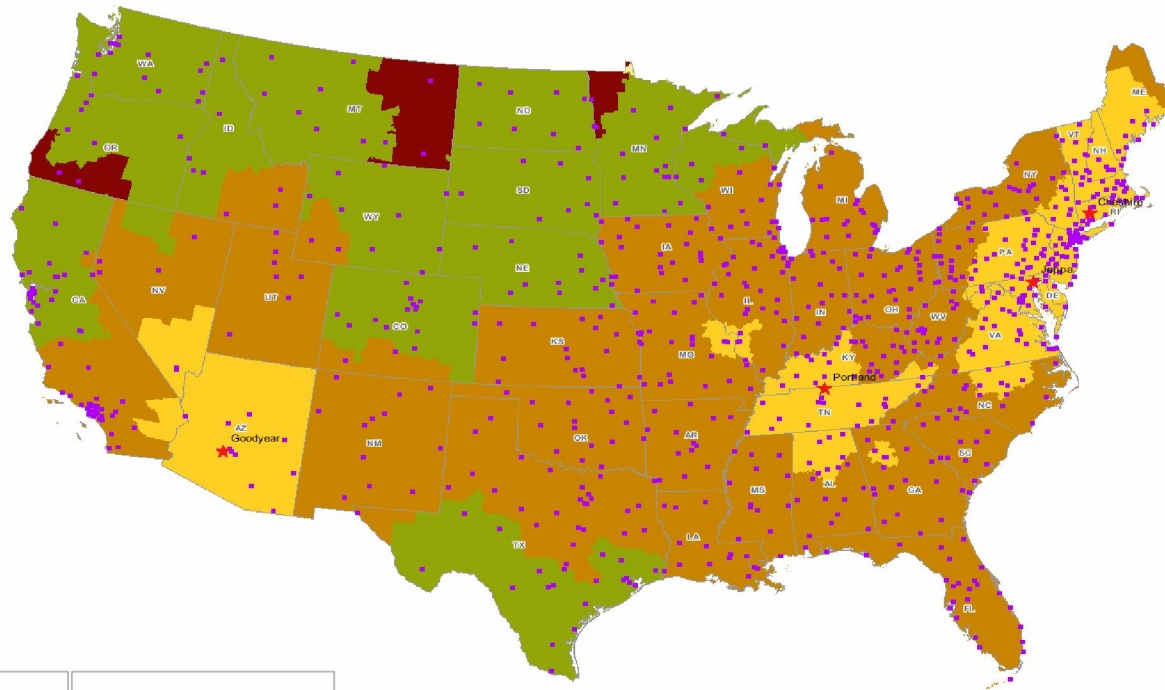
Macy's Fulfillment - 2007



The addition of our Nashville, TN DC increased speed of delivery to 27 states

Macy's Fulfillment - 2008

Federated Mega DCs Ground Service Days



Packages		
1 Day	67791	42%
2 Days	63588	39%
3 Days	30320	19%
4 Days	230	0%



Origin(s):
 85338 Goodyear
 06411 Cheshire
 21085 Joppa
 37148 Portland

Customers mapped to 3-digit zip code due to large number of customers.
 PSI Service Map colors are indicative of exact scheduled days in transit for UPS ground packages shipped within the 50 states and Puerto Rico. Run Date: 03/29/2007

The addition of our Phoenix, AZ facility provides competitive speed of delivery to all 50 states

Fulfillment Center Design Requirements

Comments

- Industry leading tilt tray sorter (1st of its kind in the US)
 1. Product combinability (reduces transportation expense)
 2. Speed & accuracy (UPC driven)
- Paperless picking
- Industry leading garment on hangar conveyance (1st of its kind in the US)
- Best in class receiving automation

Consumer Requirements

- ü Fast shipping
- ü Accurate shipping
- ü Gift services
- ü Easy returns

Business Requirements

- ü Accurate & fast receiving
- ü Accurate inventory
- ü Enable sales growth
 1. Storage capacity
 2. Shipping capacity

Bottom line: ours new DCs will solve critical issues that are important to our customers and our business partners

Goodyear, AZ



First Customer Shipment = June 2008

Supply Chain Challenges

- How do we influence vendors when our D2C requirements contradict the needs of our stores?

- **Background:**

1. VICS and Macy's have partnered for years to improve vendor compliance to "floor ready" retail standards (packaging, ticketing, hangers, etc.)
2. "D2C ready" standards often contradict the needs of our stores

Floor Ready

- Master pack assorted color / size
- Master pack poly bagging (towels)
- Open to hang (e.g., kid's apparel)
- Price ticketing

D2C Ready

- Single UPC per inbound carton
- Individual unit poly bagging
- Flat, not hanging, storage
- No price ticketing
- Visible UPC a requirement (E.g., Men's shirts)

3. D2C volume (as a % of company total) does not motivate vendors to change

- **Potential Solutions / Mitigating Actions**

1. Identify least cost location for creating D2C ready packaging (Asia vs. retailer DC)
2. Partner with other retailers to create critical mass production volume
3. Partner with strategic vendors to change the paradigm
4. Create win/win and implement

Supply Chain Challenges

- **What should we stock in our DC vs. outsource to vendors or 3rd parties?**
- **Background**
 1. Multi-channel apparel retailers actively sell > 100,000 unique SKUs
 2. The direct channel is an excellent vehicle for small store support (size extension)
 3. Storage capacity is most often our critical dimension at peak/Holiday (vs. throughput)
 4. SKU stratification (A/B/C) is difficult in a fashion business (get in, get out model)
 5. Vendors have limited capability to ship direct to customer at our standard of performance
 6. Visibility to order status is limited or less than internal monitoring
 7. Inventory availability in a multi-partner DC can be a challenge
 8. **Problem**: we cannot keep building DCs to support our business growth!
- **Potential Solutions / Mitigating Actions**
 1. Single stock slower movers (vs. regional fulfillment)
 2. 3rd party fulfill specialty categories (e.g., toys)
 3. Reserve storage @ peak through 3rd party space (mitigate the five week crunch)
 4. Improve visibility to 3rd party fulfilled orders (order management 'hub')
 5. A hybrid model is most likely the best solution