

UPS Supply Chain Solutions

Footwear Traffic Distribution and Customs (FTDC) September 2008



UPS Enables Global Commerce

UPS:

World's largest package delivery company and a global leader in supply chain services

- Revenue of \$49.7 billion in 2007
- Moves 6% of U.S. gross domestic product
- Serves more than 200 countries and territories around the world
- 7.9 million customers daily
- 93,637 ground vehicles
- 268 aircraft - World's 9th largest airline
- 101 years of experience

UPS Supply Chain Solutions:

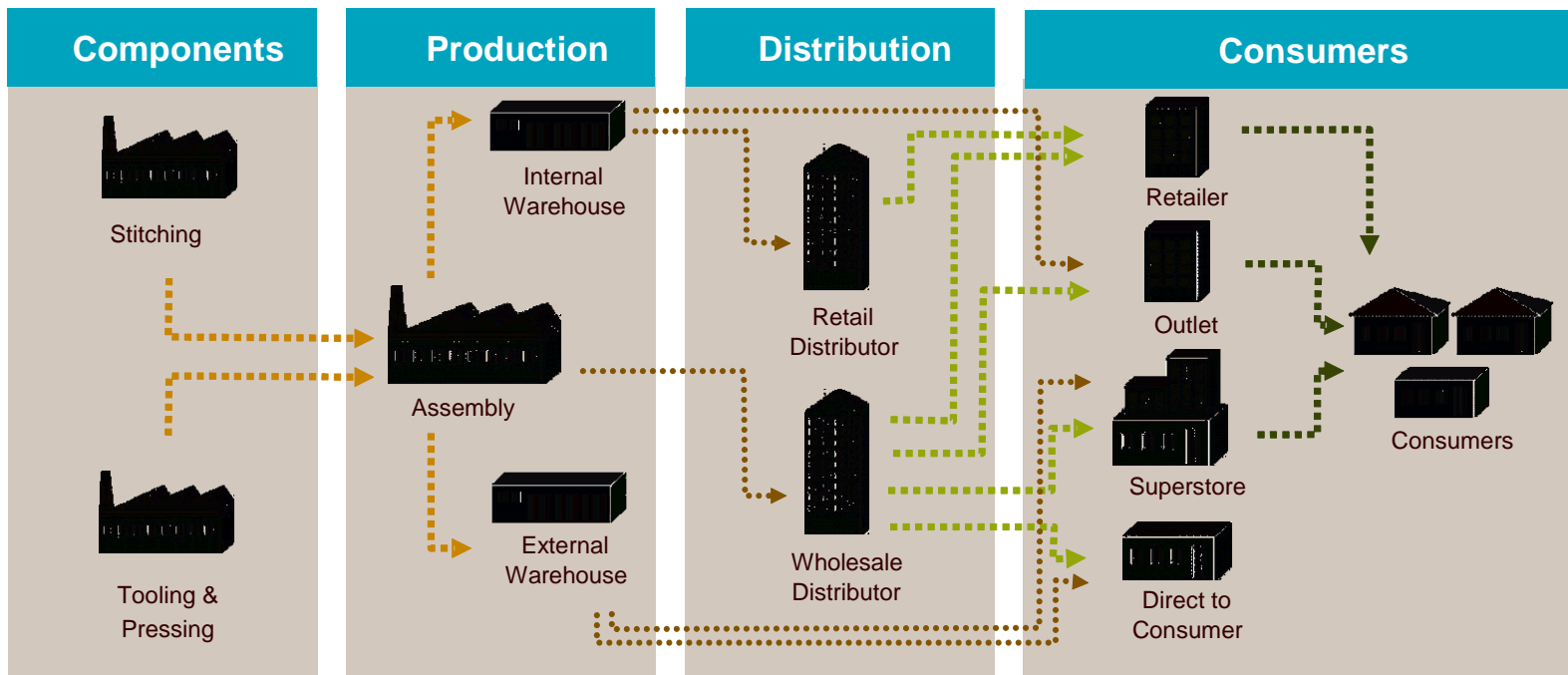
- A global provider of integrated logistics and supply chain solutions
- Revenue of \$8.4 billion
- Operations in 120 countries with over 1,033 facilities and 38 million square feet of warehouse space
- Customs brokerage services in all major international trade locations
- Global air and ocean freight forwarder and a leading Non-Vessel Operating Common Carrier
- Proven solutions in key industries, including Healthcare, High Tech, Automotive, Industrial Manufacturing, Retail and Consumer Goods

Supply Chain Management Has Gained Prominence

- Significant gains made in the past two decades
- 34% reduction in ratio of inventory to sales
- Yielding an estimated reduction of over \$4.6 trillion in total business inventories
- Order to cash cycle time improved 10% in last 5 years
- Gains came from:
 - Technology investments
 - Improved information availability and accuracy
 - Multi-modal transportation management
 - Adoption of just-in-time processes
- Total spend on SCM initiatives projected to increase to \$9.1 billion by 2008

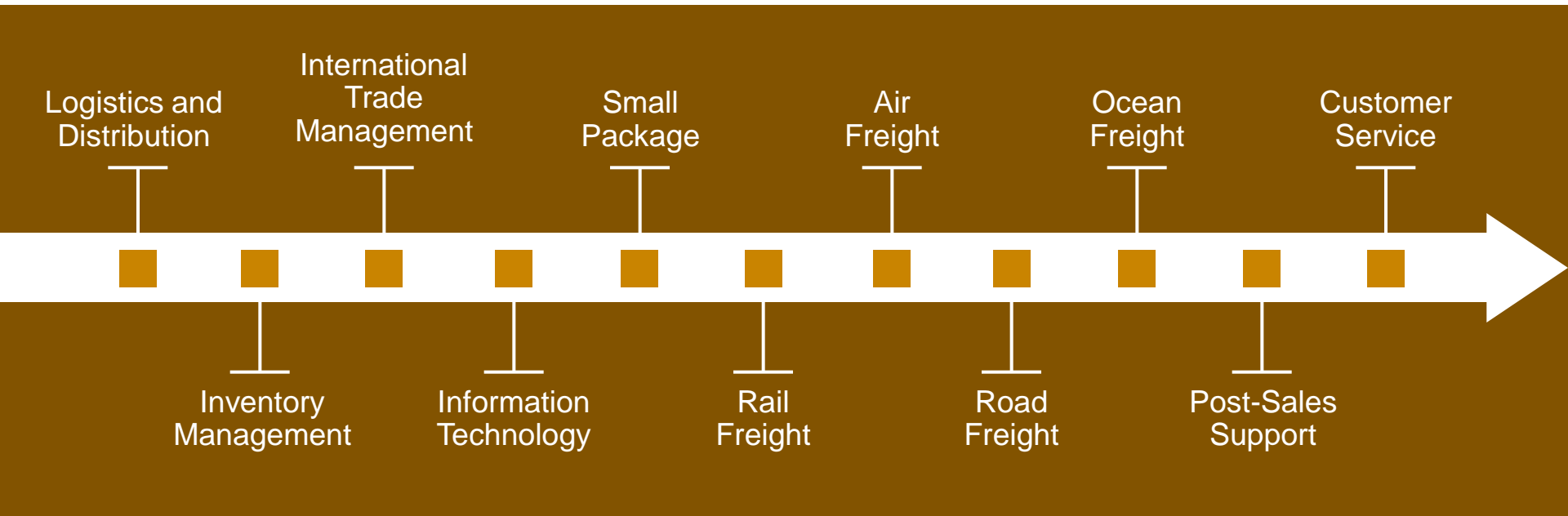
The Global Footwear Supply Chain

Footwear producers and retailers must coordinate a complex network of suppliers and customers, ensure that goods are delivered effectively and efficiently, provide consistently high quality product, and comply with changing regulations.



Elements of the Global Footwear Supply Chain

The footwear supply chain is comprised of numerous functional elements and all must work **together** for advantage to be created and sustained.



Managing these functional elements as separate disconnected silos leads to ballooning total distribution cost, and increased propensity for loss, damage, delay, and flow disruption.

Supply Chain Challenges Impacting Footwear

The Footwear industry is being profoundly impacted by recent developments in the global trade environment:



Rising Energy Costs – Fuel prices have increased over 70% YoY, with limited ability for carriers to establish new hedges. Every 1-cent increase in Jet-A adds \$195m to global air carrier operating costs. In 2000 fuel averaged 15%-20% of a freight carrier's operating costs – today it exceeds 50%.



Security and Regulatory Compliance – More than 25 new international transportation security regulations have come into effect in the past six years. Research shows that 9.2% of international orders have compliance errors, 3.4% of shipments are held at customs, and 2.4% of customs license applications are initially rejected.

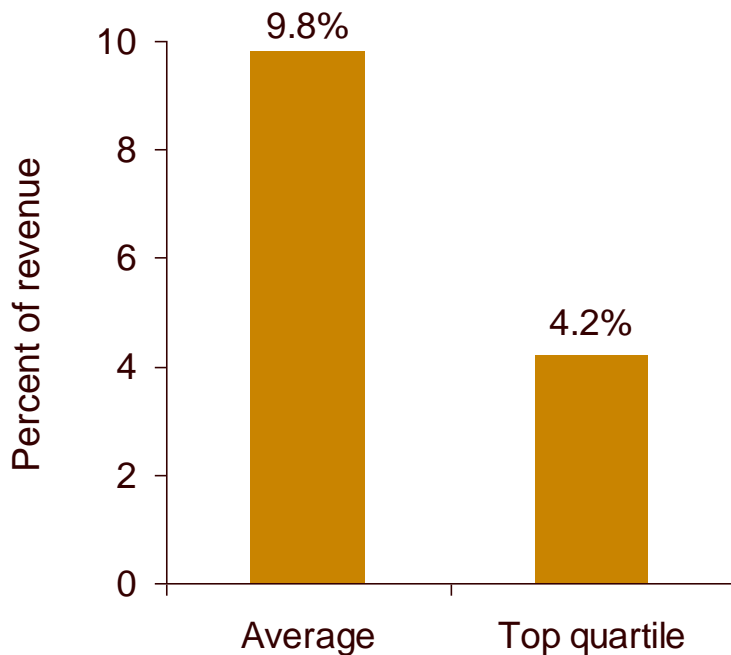


Economic Downturn in Key Markets – Record low relative valuation of the US dollar combined with tightening in the credit market has slowed US nominal retail growth to 1.3% - its lowest level of growth since the 2001 recession.

Supply Chain Challenge and Opportunity

In this challenging market supply chain leaders outperform their average competitors by a factor of two to one.

Total supply chain cost



The global supply chain directly impacts, on average, 75% of a footwear business' operating results.

Corporations with best-in-class freight and logistics competencies benchmark operational costs that are less than half of those of their direct competitors.

They also manifest market cap growth 7%-26% above industry average.

This will be an increasingly critical market advantage to possess.

Advantage Requires Efficiency and Effectiveness

Many have focused solely on the cost side of the equation. It is equally important to grow value through enhanced coverage and capabilities.

Efficiency

Pursue money-cost
and time-cost
improvement initiatives

Effectiveness

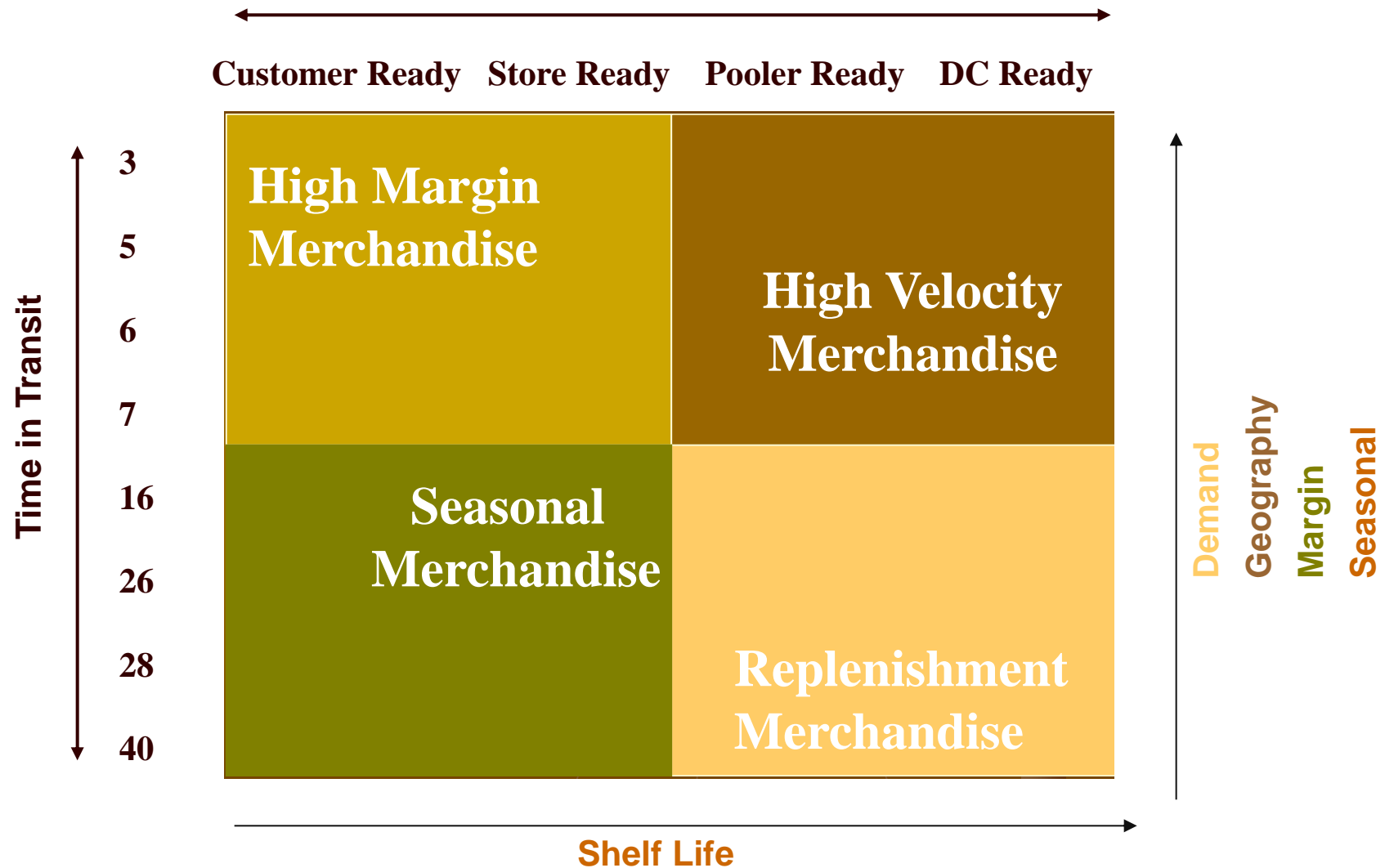
Enable service execution
and growth: differentiate
through value-added
execution

The approach to achieve operational competitiveness

Rationalize both agendas to create
a **balanced** supply chain strategy

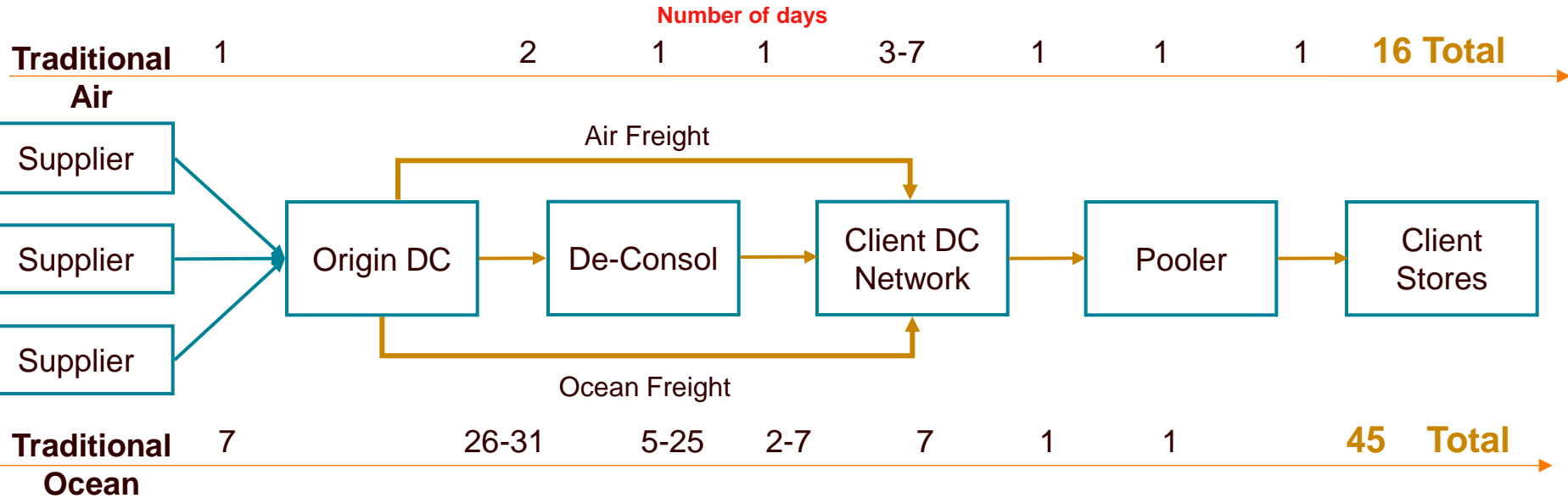
Shipment Routing: One Size Does Not Fit All

Footwear leaders realize competitive advantage through integrated multi-modal transportation aligned to the specific needs of their products.



Different Modes Incur Different Opportunity Costs

While air to ocean mode shift can reduce some specific freight expenditures, it incurs other total distribution costs which must be factored in.

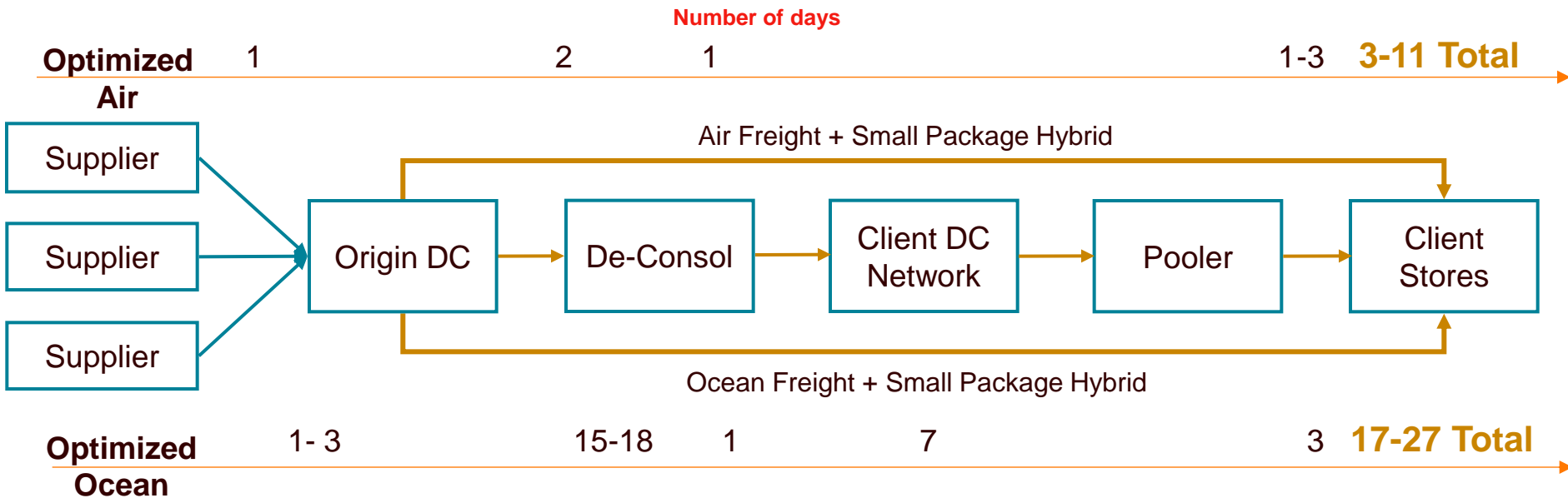


Air to Ocean Mode Shift Impacts

- Trans-continental transportation costs can be reduced by over 70% on a per unit basis, but...
 - Inventory carrying costs can increase by over 275%
 - Longer lead times are required to hit narrowing market windows
 - Intra-season replenishment of fast-moving SKUs becomes constrained
 - Localization of product to demand becomes increasingly challenging

Optimized Routing Creates More Sustainable Value

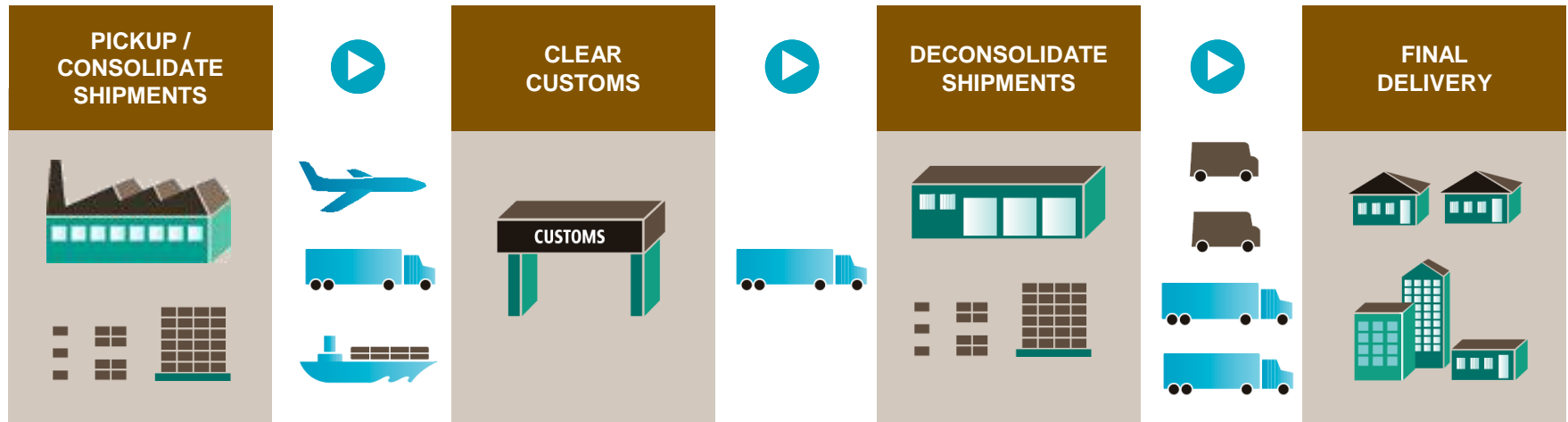
Aligning routing to optimal distribution characteristics for individual SKUs is the key to sustainable competitive advantage.



Optimized routing capitalizes on achieving and maintaining the correct blending of Effectiveness and Efficiency by actively managing both the distribution path and supporting transportation modes.

Integrated Supply Chain Example: Trade Direct

A complete, integrated, multi-modal solution



FULL VISIBILITY: End-to-end tracking provided throughout the supply chain.

Freight and individual packages are picked up and consolidated

Consolidated shipment crosses the border in a single customs clearance

Freight moves via LTL
Packages enter UPS package delivery network

Package and LTL shipments are delivered direct to multiple retail stores and/or end customers

The Quantified Advantages of Supply Chain Alignment

Effective end-to-end management of global transportation and ancillary functions can reduce total distribution cost by up to 5%, with the same impact on profit as a 30% increase in sales.

Retail Business Improvement Through End-to-End Supply Management

| | |
|------------------------|---------------------|
| Reduced Stock-Outs | 2%-8% improvement |
| Lower Inventory Levels | 10%-40% improvement |
| Increased Sales | 5%-20% improvement |

Manufacturing Business Improvement Through End-to-End Supply Mgmt

| | |
|-----------------------------|---------------------|
| Lower Inventory Levels | 10%-40% improvement |
| Faster Replenishment Cycles | 12%-30% improvement |
| Higher Sales | 2%-10% improvement |
| Better Customer Service | 5%-10% improvement |

Transportation Provider Selection Criteria

While several leading consultant's put forward differing selection criteria, they do have a number of common elements:

- **Scope and Breadth of Network** – Where is coverage provided, and how does this align to your existing business and growth strategies?
- **Single Source Accountability** – Are end-to-end solutions available, and to what degree are disparate services cohesively integrated?
- **Economies of Scale** – Are cost efficiencies enabled by the provider's volume, and can true end-cost savings be realized?
- **Commitment to Service** – Can they demonstrably enhance your brand through high quality service delivery? Are they known for service?
- **Single Integrated Visibility** – How will command, control, and communication be exercised internally and externally?
- **Financial Footing** – Is the provider positioned for reliable continuous operation? Do they mitigate risk, or add to it?

Thank you



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