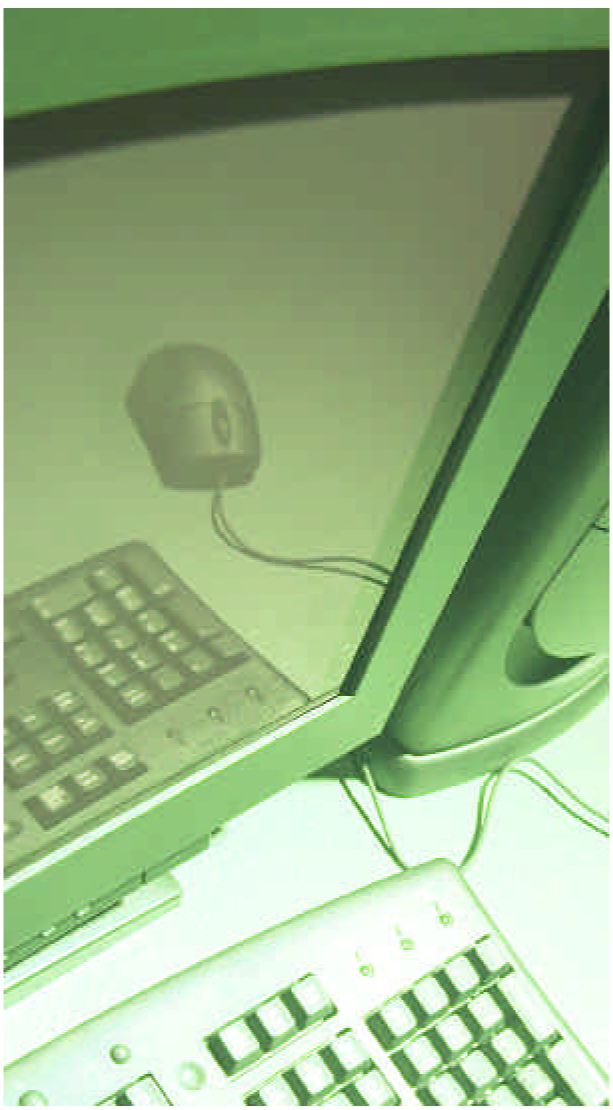
TECHNOLOGY *As A* COMPETITIVE WEAPON

A Discussion With Bob Spieth, Executive Vice President and Chief Information Officer for Ozburn-Hessey Logistics, a national third-party logistics provider based in Nashville.



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Bob Spieth is no wide-eyed innocent. Executive Vice President and Chief Information Officer for third-party logistics provider Ozburn-Hessey Logistics (OHL), Spieth has a pedigree that would impress the most cynical of observers. Prior to joining OHL, he worked in strategy and operations consulting with McKinsey & Company, and in logistics and computer assembly with Arrow Electronics, a Fortune 250 electronics distributor. Before being named as CIO at OHL, he was Senior Vice President of Operations and Chief Operating Officer for that company. Now, in addition to information technology, Spieth oversees human resources, strategy and two subsidiaries of the company - Material Handling Resources and Personnel Services, Inc.

Oh and, by the way, he also holds an undergraduate degree in Physics from Princeton University and an M.B.A from Harvard Business School.

So when Spieth states that "I think our investment in technology made a lot of our growth possible," he's probably worth listening to.

OZBURN-HESSEY LOGISTICS

OHL was founded in 1951 as a local and regional warehousing concern. "We have a number of long-term relationships - Abbott Labs goes back literally to 1951 and DuPont for over 30 years," he points out. "We're the 6th largest warehousing logistics provider in the US in terms of square footage, and the average length of relationship with our major customers is 9 years…pretty long relationships."

In 1996, there was a change in the management structure of the company, with the company reorganized with the current management team. In 1998, OHL initiated a relationship with Chicago-based WMS provider Zethcon Corporation, and co-developed a tier-one, cutting-edge warehouse management system for internal use. (Called Synapse, this product has subsequently been further developed, and is marketed externally by Zethcon.) At that time, OHL operated 2.5 million square feet of warehouse space, and was a significant but regional third-party logistics provider, operating primarily in Tennessee, with smaller operations in Kentucky. It had less than 400 associates, and total company revenue was less than $30 million.

EXPANSION

"On or about that same time," recalls Spieth, "OHL began to realize that we needed to grow as a company in order to remain competitive." So the company sought external financing and began a multi-year acquisition strategy, commencing with its merger with Pro-Channel Distribution Partners, which owned warehouses in Toledo, Ohio and Wisconsin, and continuing with the 2002 acquisitions of Sterling Logistics (Chicago, Illinois), ODC Integrated Logistics (Sparks, Nevada), and the Atlanta operations of Distribution Technologies. In 2003, OHL added a tier 1 Transportation Management System (TMS) product to its Synapse offering. Then, in 2004, OHL made another large acquisition -

Lanter Logistics, based out of Madison, Illinois.

Spieth looks back: "It's interesting to look back and see where OHL has come from since 1998, when we made the decision to make a significant investment in technology, and where OHL is today."

Flash-forward to today: OHL operates over 19 million square feet of warehousing space, in over 20 states, and has 2500 full-time associates (along with a significant number of temporary associates.) Revenue in 2004 was just shy of $400 million.

"I'm certainly not going to say that technology was responsible for all that growth," Spieth points out. "There were many other factors, including a great team of associates, strong management group and some large acquisitions. But I do think our investment in technology made a lot of that growth possible…and helped it along."

"OHL's strategy is to offer a national network, with regional hubs, where we can provide both dedicated facilities and shared facilities, or what we call 'campus locations,' that are all linked by a common IT network and common IT platforms. This makes it easier to serve a customer with multiple locations in the same way, and limit the amount of development and training we need for associates."

The Need

"In 1998, when we first initiated the work with Zethcon, OHL recognized that the contract warehousing business was more profitable and a better growth opportunity than the public business, which had traditionally been the largest part of our business. So we wanted to grow the former. However, technology was limiting our growth. We had had a couple of recent situations where we had lost potential business due to our lack of technological capabilities. I can clearly remember a potential customer where we had the best people, we had the best management, we had very strong processes, we were in exactly the right locations, and we were not awarded the business…because our technology was not at the level that this customer wanted. That happens one or two times, and you begin to pick up a pattern."

Spieth recalls some of the typical arguments he has heard from others around the industry giving reasons NOT to invest in technology:

- "My customer will provide the technology if they really want it."
- " I know a customer who spent millions trying to implement a state-of-the-art WMS package, why should I?"
- "I've heard RF hurts your productivity instead of helping."
- "It costs too much…I can't recoup it from my customer."
- "I can't get a payback."

While Spieth believes that there is some truth in each one of these arguments, he also insists that there is a great deal of truth missing from them as well.

But in the end, rather than doing what most companies do and looking at technology from strictly a cost perspective (i.e., thinking about ROI purely in terms of cost savings vs. cost of ownership), OHL assessed its large investment technology in much broader terms - as a competitive weapon.

The Result

What are some of OHL's successes? "To date, we've shipped over 9 million orders on the Synapse system," Spieth points out. "It's kind of funny, we originally set up the order numbering system with seven digits, which basically takes you to nine million, nine hundred and ninety-nine thousand orders…we thought that would take a hundred years. It's taken us about five. Today we're frequently processing over 20,000 orders in a single day. And we are expanding the order field."

Spieth continues: "Most importantly, we've won new business that we would flat out not have been able to win without this higher level of technology. Most recently that includes customers like Overstock.com and Red Bull, the energy drink, as well as expanding our relationship with Starbucks Coffee."

What is notable as Spieth continues to list meaningful benefits flowing from the system is the emphasis on customer-satisfaction and high service-level capability - both prime marketing fodder for OHL - in addition to a more traditional focus on cost-related improvements such as productivity increases:

Inventory Control
"We've seen superior inventory control, inventory accuracy at the 4-sigma level, and customers who

Technology Summary

Provider: *Zethcon Corporation, a 30 year old logistics technology solutions provider based in Park Ridge, Illinois.*

Technology: *Synapse™, a leading-edge WMS/OMS technology developed by Zethcon (in connection with Ozburn-Hessey Logistics) that provides for the full range of warehousing and order management functionality required for sophisticated distribution environments.*

Key Benefits: *Reduce inventory carrying and distribution costs by increasing inventory turns; Multifaceted integration with client host and ERP systems beyond conventional EDI; Internet-enabled performance and distribution solutions that complement existing business processes; Convenient, secure access to real-time inventory and shipment status; Sophisticated value-added service capabilities such as kitting and returned goods management; Flexibility to quickly react to rapidly changing retail compliance demands*

More Information: *www.zethcon.com*

either are able to stop doing annual physical inventories - although that's less prevalent now with the advent of Sarbanes-Oxley, quite frankly - or customers for whom the annual physical inventory is truly a non-event, in spite of the value of some of the products that are being handled."

Real-Time Information
"We've seen an advantage in real-time information. In being able to provide our customers with inventory status as soon as something happens on the floor, the customer knows about it and has it reflected in their ERP within 15 minutes. That helps the customer allocate inventory better, and it helps deal with issues very quickly."

Same-Day Fulfillment
"We've seen that, for instance, a paperless system like Synapse gives us a very short cycle-time, so we can take orders until 9:30 or 10:00 at night at our Memphis campus, and still ship them the same evening, so that the end customer can get the product the next morning. That's true with fulfillment-type operations, it's equally true with our core consumer packaged goods clients, where we've seen that going from a paper-based system to paperless system, we've been able to basically cut a day off of the order cycle - instead of order today, ship it tomorrow, we've been able to get orders today, ship it today, and to do that routinely without stressing the system."

Enhanced Replenishment
"We've seen an advantage in being able to optimize the work on the warehouse floor. One good example is with our paper-based system, we weren't able to handle a replenishment process particularly well. With Synapse, we're able to set up dedicated pick logic with automatic replenishment, that allows the picker to travel much less of the house and yet manages the process such that whenever a picker goes to a pick-front, there's product available. They're not out searching for someone to do a replenishment. Those kind of benefits are very real."

Productivity Improvement
"We've seen productivity improve, in the ability to drill-down to the individual and identify how many cases did Joe pull in per hour, per day. Track that, and take action based on those kinds of measures."

Lessons Learned

What are some of the lessons OHL has learned through this process?

"I won't say this is the only lesson," Spieth continued, "because we learn new things every day, but the most important I guess is to choose your [technology] partner carefully."

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We asked, why Zethcon? "We felt like there were aspects to packaged systems at the time that were not well-developed and were limiting to what we understood the business to be at that time, " Spieth recalls. "We wanted to work with a company that had a collaborative culture, a company that would work together with us to achieve the best solution for our customers. We wanted that kind of culture and we saw it with Zethcon."

He continues: "In particular, you need to consider whether the prospective partner can provide implementation and support on the front-end to get the system up and running. Even more important, if you land that very large customer with requirements that stress your current associate group, can you turn to that partner to be able to support you in that implementation and any customization associated with it?"

Spieth emphasizes turnaround when discussing partners. "What's their track record for responsiveness? We'll get very short cycle time requests from our customers, asking for something today that can be put in tomorrow. And quite often we have to turn to our partner, to Zethcon, to be able to respond to that, and that's been a big benefit - that's been something that has distinguished us and allowed us to be successful in the marketplace."

Conclusion

OHL's success in the marketplace has been significant. As noted above, the company has gone from $28 million in revenues to over $400 million in about six years. While a great deal of that top-line number can be attributed to acquisitions, the ability to grow at this pace in a manner that avoids customer disruption and, in fact, enhances customer satisfaction is not something to be taken for granted.

OHL customers have expressed similar views. Rob Steere, Director of Operations for Red Bull: "Our decision to partner with OH Logistics was based upon their flexible warehouse network, transportation management capabilities and their strong information technology offering which provides us with web based visibility to our supply chain."

Lonnie Turner, Director of Logistics Americas for Duni, a Swedish-based provider of paper and plastic products to the food service industry said, "The technology offered by OH Logistics was important in our 3PL selection. This partnership has taken Duni from a manual distribution environment to a fully automated one in a very short time and the systems give us the tools we need to make informed decisions and to be more competitive."

Spieth thinks such sentiments clearly indicate that investing in tier-one WMS technology makes good business sense, particularly within the 3PL industry, where "it's really a must." He believes OHL's experience completely vindicates their decision seven years ago to "invest in technology as a competitive weapon."