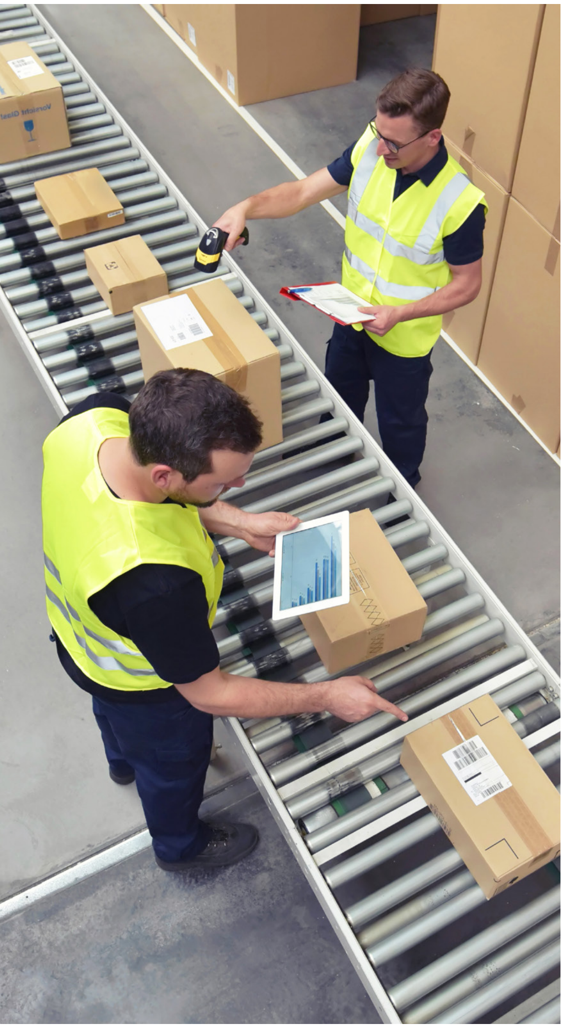
THE DISTRIBUTION EXPERTS™
Fortna Thought Leadership Series

Seven Steps to Getting Board Approval on your Distribution Project

Visit fortna.com



Every distribution-intensive business needs to improve its ability to get the Right Product to the Right Place at the Right Time and at the Right Cost. Often this requires a significant investment in distribution. Amazon is a great example of a company that gained competitive advantage by making strategic investments in distribution and offering an unprecedented level of convenience at competitive costs based on their:

- **Product Selection** (nearly 600 million products in the U.S. – most of which are through Amazon's third-party seller relationships);
- **Warehousing Efficiency** (vast investments in robotic technologies to reduce the cost of labor);
- **Delivery Speed** (they can deliver products the same day to approximately half of the U.S. population, and they have distribution facilities within 20 miles of more than half of all households earning more than $50,000/year); and
- **Delivery Cost** (over 100 million U.S. Prime Members are eligible for free shipping).

The resulting "Amazon Effect" has dramatically changed the playing field and increased customer expectations for convenience. Even companies who are not direct Amazon competitors have been impacted.

But projects that help increase speed and improve service often require significant investments that require board approval. If your goal is to beat the competition and sustain growth, you must guide your board to make the right investments. But how do you evaluate potential investments for improving distribution? And how do you get the board to say yes to what will be a sizeable investment? There are seven steps to getting board-level approval for your distribution investment:

1. Identify the Burning Platform
2. Identify Alternative Solutions
3. Identify the Decision Criteria
4. Analyze the Trade-offs
5. Develop a Plan to Manage Risk
6. Conduct the Meetings before THE Meeting
7. Develop and Present a Board Level Business Case

STEP 1: IDENTIFY THE BURNING PLATFORM

There's never enough money to go around. So, to win board approval, your request for investment must be driven by a "Burning Platform" – an urgent situation that requires change or a key opportunity for your business. Typically, that means addressing speed, cost, capacity, or risk in your distribution network. Examples of Burning Platforms include:

- Support new or growing distribution channels (e.g., direct to consumer, order online – ship to store, ship from store, etc.)
- Reduce "order to receipt" cycle times
- Reduce inventory investment and exposure
- Reduce dependence on labor due to rising costs or risk of availability
- Support entry into new geographic market
- Integrate a new business acquisition

What is the Burning Platform in your business?

STEP 2: IDENTIFY ALTERNATIVE SOLUTIONS

Next, look at the alternatives for solving the problem. Across the landscape of distribution – including products, services, placement, people, processes, systems, equipment, and buildings – there will be a number of different solutions and investments that could work. For example:

- **Products** – low cost vs. high value; basic vs. configurable; stable vs. seasonal turnover
- **Services** – no frills vs. value add; same day vs. next day; consolidated delivery vs. store friendly receipts
- **Placement** – central vs. regional facilities; distributed vs. consolidate slow moving inventory; on hand at store vs. ship from DC
- **People** – insource vs. outsource; balance of permanent vs. temporary staffing; minimize labor through automation vs. maximize flexibility
- **Processes** – manual vs. automated; self-directed vs. system-directed; batch and sort vs. direct or cluster; person to goods vs. goods to person; multi-stop vs. pool distribution; third party vs. own fleet
- **Systems** – legacy application vs. best of breed; WMS integrated with WCS vs. single WES; insource vs. outsource support

"To win board approval, your request for investment must be driven by a 'Burning Platform' – an urgent situation that requires change or a key opportunity for your business."

- **Equipment** – low tech vs. high tech; tried and tested vs. "bleeding edge;" carton and pallet flow vs. rack and shelving; belted vs. accumulation conveyor; loop sorter vs. goods to person
- **Building** – expand vs. new; lease vs. own; flow through vs. u-shaped; operate vs. outsource

What alternatives should you consider to address your Burning Platform?

"**Typically, the ROI must meet a minimum threshold to be considered, but the final decision will be made based on more qualitative factors.**"

STEP 3: IDENTIFY THE DECISION CRITERIA

The next step is to identify the criteria that the board will use to approve or deny your project. Will the board consider this the right investment in the right solution? The project's Return on Investment (ROI) is often a critical factor, but the final decision must also address other criteria important to decision makers, such as the impact on:

- People, Processes and Systems
- Building and Equipment
- Time, Risk and Flexibility
- Key Business Metrics
- Personal Criteria

Typically, the ROI must meet a minimum threshold to be considered, but the final decision will be made based on more qualitative factors. And each board member will have a unique view of their importance based on their own personal criteria. For example, how risk averse or risk tolerant they are, whether they see themselves as an innovator or are well-educated in the new methods and technologies.

What is the decision-making process in your business?

Who are the decision makers?

What criteria will drive the decision?

STEP 4: ANALYZE THE TRADE-OFFS

The next step is to evaluate the quantitative and qualitative impact of each alternative and identify the solution that provides the most value relative to the investment required.

The project's value can be generated in many ways – by increasing capacity, revenue, quality, service, flexibility, and personal appeal to decision makers, and by reducing time, cost, working capital, taxes, risk to the business, and personal risk to decision makers.

The project's investment should be segmented into:

- **Capital Expenses** – tangible assets with a lifespan of more than one year and depreciated over that lifespan, which directly impact the balance sheet; and
- **Non-Capital Expenses** – ancillary, non-depreciable expenses invested to effectively use the asset, which directly impact the income statement.

Once the individual components of value and investment are put in clear monetary terms, you can then calculate the ROI of each alternative based on metrics such as Payback Period, Internal Rate of Return (IRR), or Net Present Value (NPV). A key consideration in the analysis is the anticipated cash flow horizon. Investments in durable assets tend to have longer cash flow horizons, and generally, the longer the cash flow horizon the higher the return.

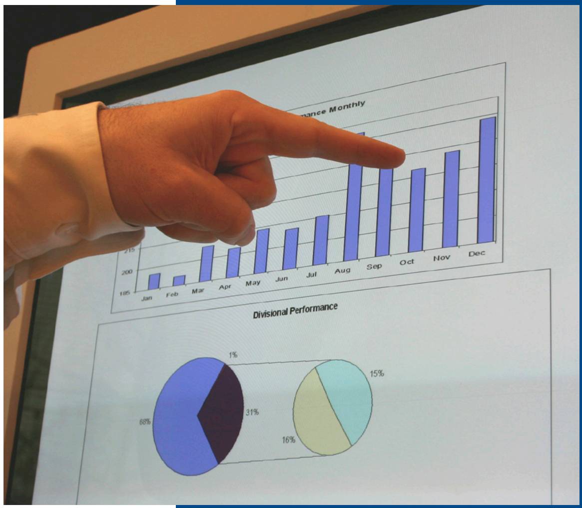
Next, the ROI and the other important decision criteria should be weighted, then each alternative solution compared to identify which one offers the best overall balance and favorable impact to the business. The analysis should also include a comparison to the opportunity cost of doing nothing to address the Burning Platform.

> **"The analysis should also include a comparison to the opportunity cost of doing nothing to address the Burning Platform."**

Which of the alternatives is the best overall investment and likely to win approval from the board?

What will you miss out on if you don't make any investment?

STEP 5: DEVELOP A PLAN TO MANAGE RISK



All significant investments in distribution come with an element of risk, and risk needs to be identified and managed through the lens of the board. High-risk, "bet the business" propositions rarely get approved. Therefore, the most successful approach is to:

- Diligently investigate potential challenges and success factors associated with the investment;
- Be transparent about risks and the plan of action to mitigate the highest probability risks;
- Start small at first (e.g., through a pilot approach), if possible, before expanding the investment; and
- Don't assume perfection. Challenges will occur. So, staff the implementation team with experienced and strong problem solvers.

What are the risks of doing nothing?

What are your highest probability risks if you make an investment?

How do you plan to avoid or minimize the impact of those risks?

STEP 6: CONDUCT THE MEETINGS BEFORE *THE* MEETING

It's critically important to avoid surprises during a presentation to the board. But, it's inevitable if it's the first time the business case has been presented to the board or if there is misalignment among the decision makers that hasn't been identified beforehand.

> **"All significant investments in distribution come with an element of risk, and risk needs to be identified and managed through the lens of the board."**

Therefore, the best approach is to conduct meetings with individual board members and key influencers before the final presentation to the board. In these meetings, you can educate them on the recommended investment, understand their points of view, address their concerns, alter the recommendation if needed, and get alignment on the recommendation prior to THE board meeting. When done successfully, the final presentation at the board meeting may feel "ceremonial" as each person restates their commitment to the proposal, but now in a group setting.

Who are the influencers and decision makers and are they aligned with your recommendation?

STEP 7: DEVELOP AND PRESENT A BOARD LEVEL BUSINESS CASE

Ultimately, the business case presentation needs to be clear, concise, address the board's key questions, and accomplish the main objective – to gain agreement and move forward. Here is a sample agenda for the presentation to the board:

- **Meeting Objectives** – make sure everyone is aware of the intent of the meeting
- **Project Scope and Objectives** – summarize the background, context, and purpose of the work that led to this meeting
- **Business Imperative/Burning Platform** – emphasize the importance of this meeting and the imperative to do something
- **Alternative Approaches & Recommendation** – briefly describe the recommendation and the alternatives considered

- **Impact and Trade-off Analysis** – illustrate the detailed analysis that was done to find the best alternative
- **Financial Business Case** – summarize the financial impact of the recommended investment
- **Risk Management Analysis** – demonstrate that risks are being considered and will be managed and controlled moving forward

- **Implementation Timeline** – provide a high-level roadmap for the journey ahead
- **Next Steps** – outline the immediate steps to either reach a final decision and/or launch the project forward

Is your presentation easy to understand; does it tell a compelling story? Does it lead to an obvious conclusion?

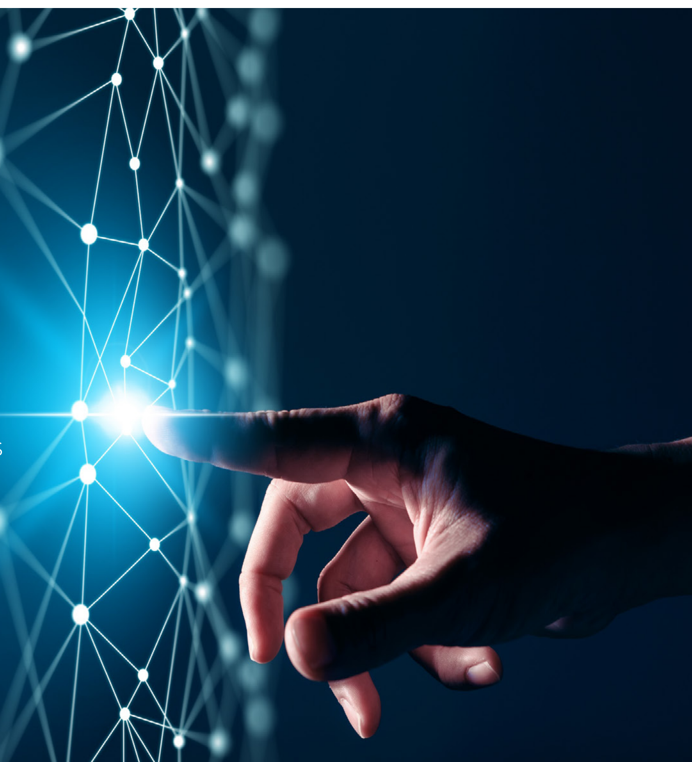
Have you made it clear what you expect of the decision makers?

Are you well prepared to get started if they say "yes?"

SUMMARY

To compete in today's environment, companies need to make significant investments in their distribution operations to meet the goal of getting the right product to the right place at the right time at the right cost. But knowing that investment is needed and getting board level approval for it are two very different things. Follow these 7 steps to develop a strong business case for investment – one that your board of directors can get behind because it addresses their concerns up front.

For more information, contact The Distribution Experts at info@fortna.com.



THE DISTRIBUTION EXPERTS™

Fortna partners with the world's leading brands to transform their distribution operations to keep pace with digital disruption and growth objectives. Known world-wide as the Distribution Experts, we design and deliver intelligent solutions, powered by FortnaWES™ software, to optimize fast, accurate and cost-effective order fulfillment. Our people, innovative approach and proprietary algorithms and tools, ensure optimal operations design and material and information flow. We deliver exceptional value every day to our clients with comprehensive services including network strategy, distribution center operations, material handling automation, supply chain systems and warehouse software design and implementation.

CONNECT WITH US

Visit fortna.com

Contact info@fortna.com