



DHL Solutions: Mastering Market Challenges

Rolf Habben-Jansen, Head of South, West, East Europe Region, DHL Solutions

Changes in customers' Contract Logistics Requirements

1 INTERNATIONALIZATION

2 STANDARDIZATION

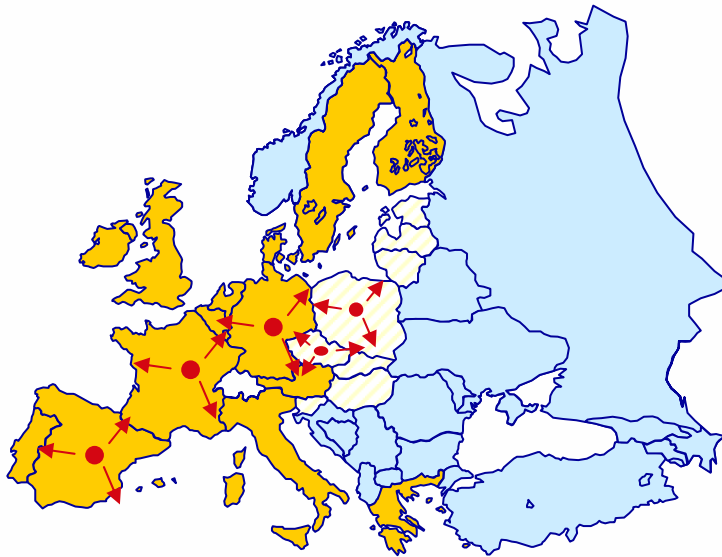
3 SUPPLY CHAIN THINKING

4 FLEXIBILITY

Resulting Challenges for Contract Logistics Providers

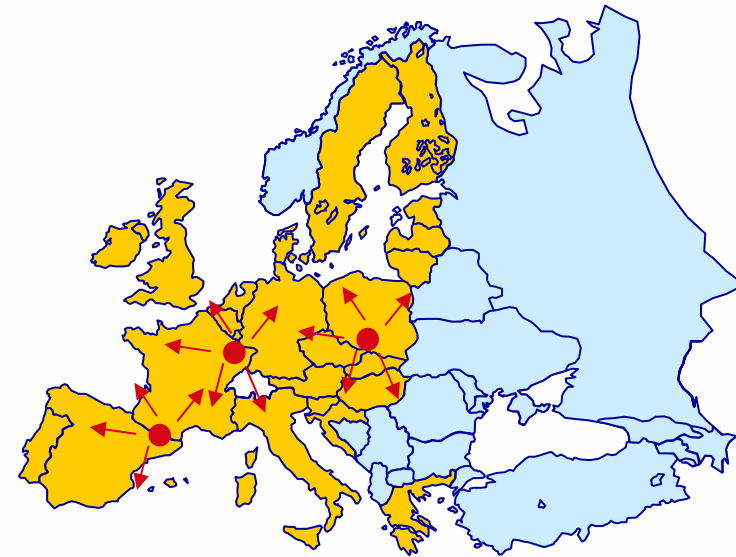
- Integrated overseas logistics offerings required
- Multi-country and regional service capabilities required
- Presence in G7 and major growth areas expected (Asia, EE, SA)
- Global references for business development needed
- Common operating procedures and common IT platform needed to enable efficient and effective customer interfaces
- Application standardization opportunities need to be captured
- Better, more comprehensive and more sophisticated core logistics services required
- Additional services and value creating solutions expected
- Short notice cancellation options expected
- Increasing number of variations within contracts vs. original scope

- Optimized infrastructure, concentrated in strategic locations
- Global and regional network capabilities
- Good industry coverage and customer intimacy
- Qualified, motivated people and teams
- Good geographical coverage in Europe
- Relatively high level of standardization



1990's Concept: Decentralized Networks

- ✓ National warehouses limited by strong country borders
- ✓ National markets slowly became international (EU)
- ✓ "Logistics borders" started to disappear
- ✓ Development of European Distribution Centers (EDC) for Western Europe and national warehouses for Eastern Europe



Concept Since 2000: Hybrid Networks

- ✓ EU Enlargement (10 new members, + 75 M people)
- ✓ Rising of production plants in East Europe
- ✓ National warehouses in Europe are being replaced by RDC/EDC for Central/ Eastern Europe
- ✓ New models lead to 2-3 EDC's in Europe
- ✓ Decline of importance of National DC – partly due to production moving to Eastern Europe (factory distribution)

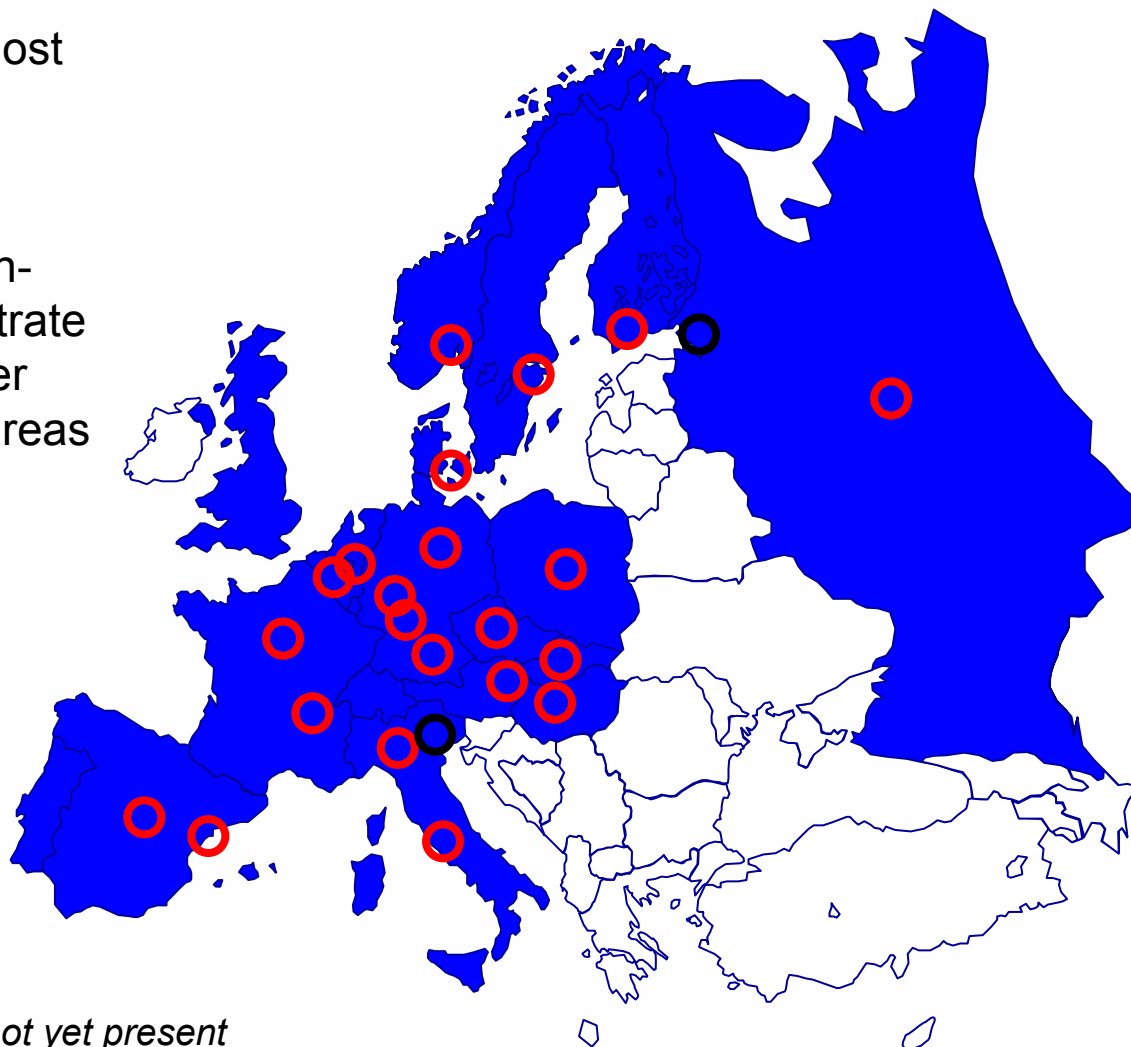
Rationale for Changing Network Model: Shift from country focus to regional optimization by product/market and the EU extension to the East

Current Situation:

- DHL Solutions present in most strategic areas in Europe

Future Focus:

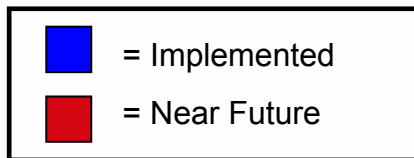
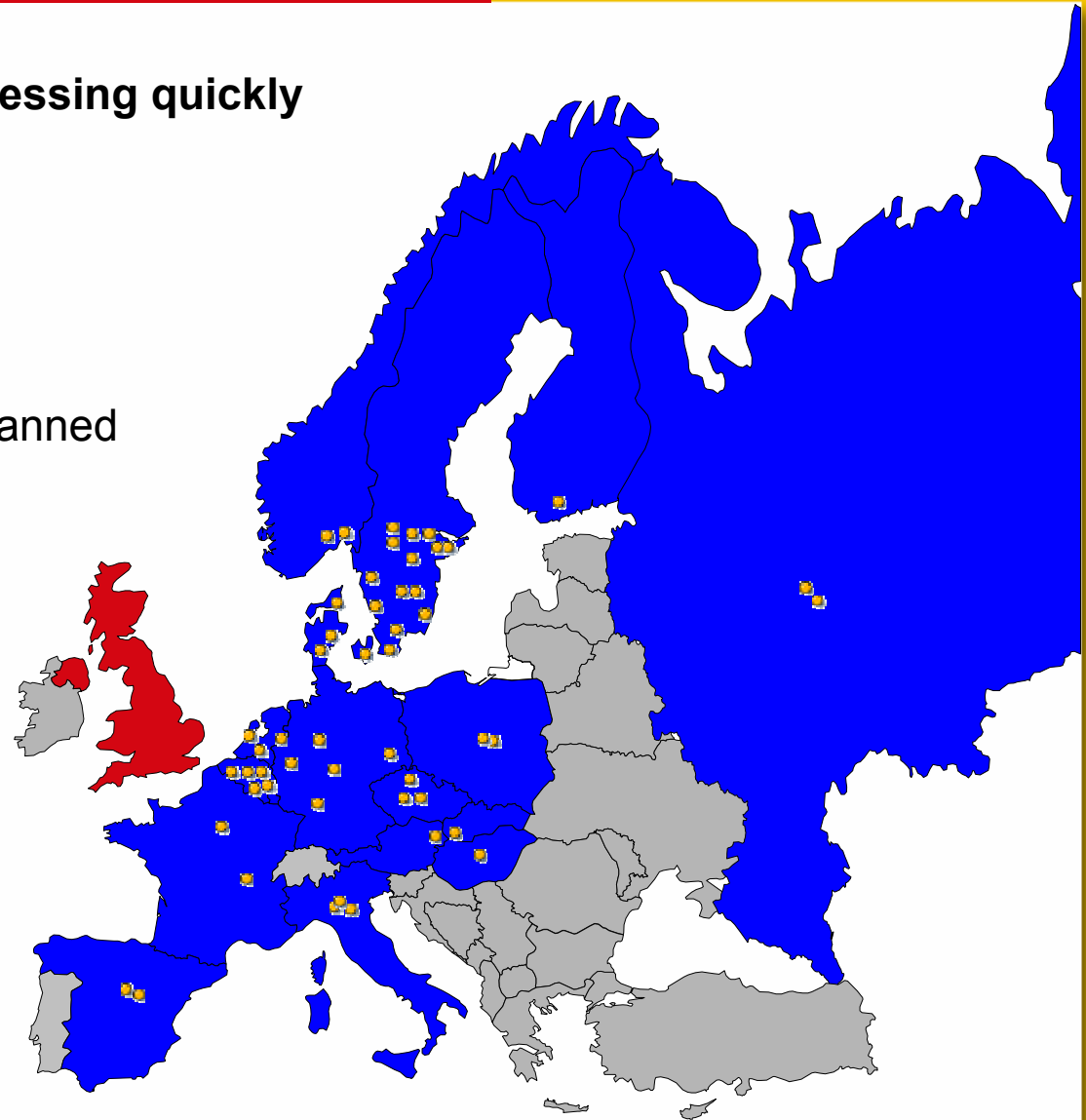
- Close remaining LC's in non-strategic areas and concentrate business in bigger multi-user warehouses in main GDP areas



- Main Strategic Areas
- Areas where DHL Solutions is not yet present

Standardization on Prologs is progressing quickly

- 64 sites in Europe (75 worldwide)
- 24 countries worldwide
- more then 160 customers live
- 45 new implementations ongoing/planned until end 2005



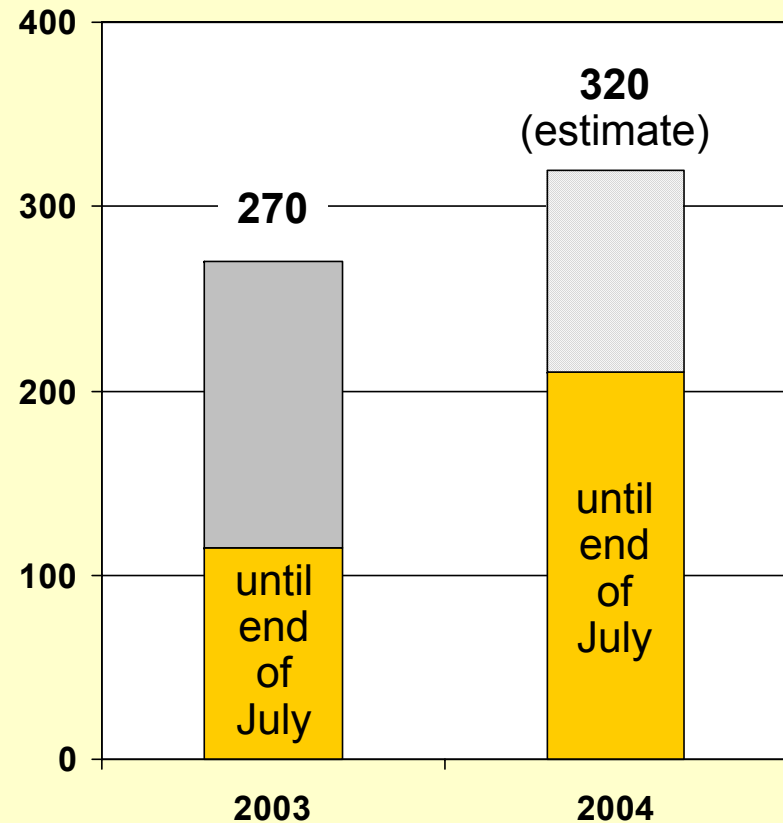
Information updated September 2004

Consistent Pan-European DHL Solutions Sales Approach

- Focus on Specific Segments (FMCG, Retail, Life Style & Apparel, Hi-Tech, Life Science)
- Focus on Strategic Locations
- Build Around Existing Competencies
- Cooperate Closely with GCS (key to success in the next few years)



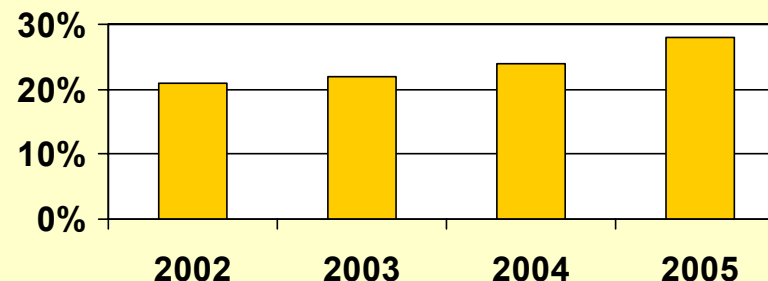
Number of New CL Contracts Closed



Account Management

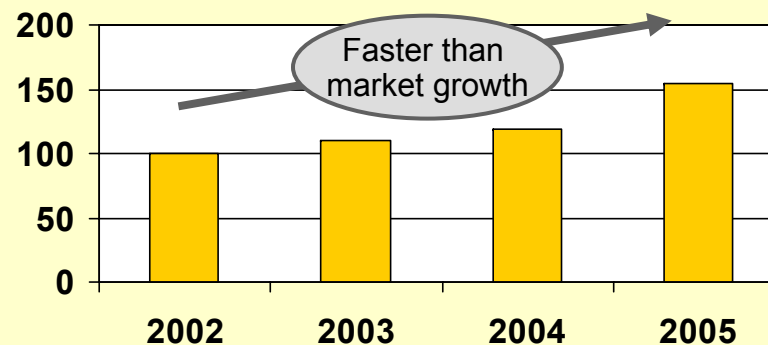
- **Active Pursuit of Cross-Country Customer Leveraging**
- **Main Objective: to Increase Customer Penetration** (which in many cases also increases the spend with other DHL business units – Express, Freight, DDAO)
- **Start of Dedicated Effort: 18-24 Months Ago**

Share of Multi-Country Accounts in DHL Solutions Portfolio



Growth of Multi-Country Accounts in EUR

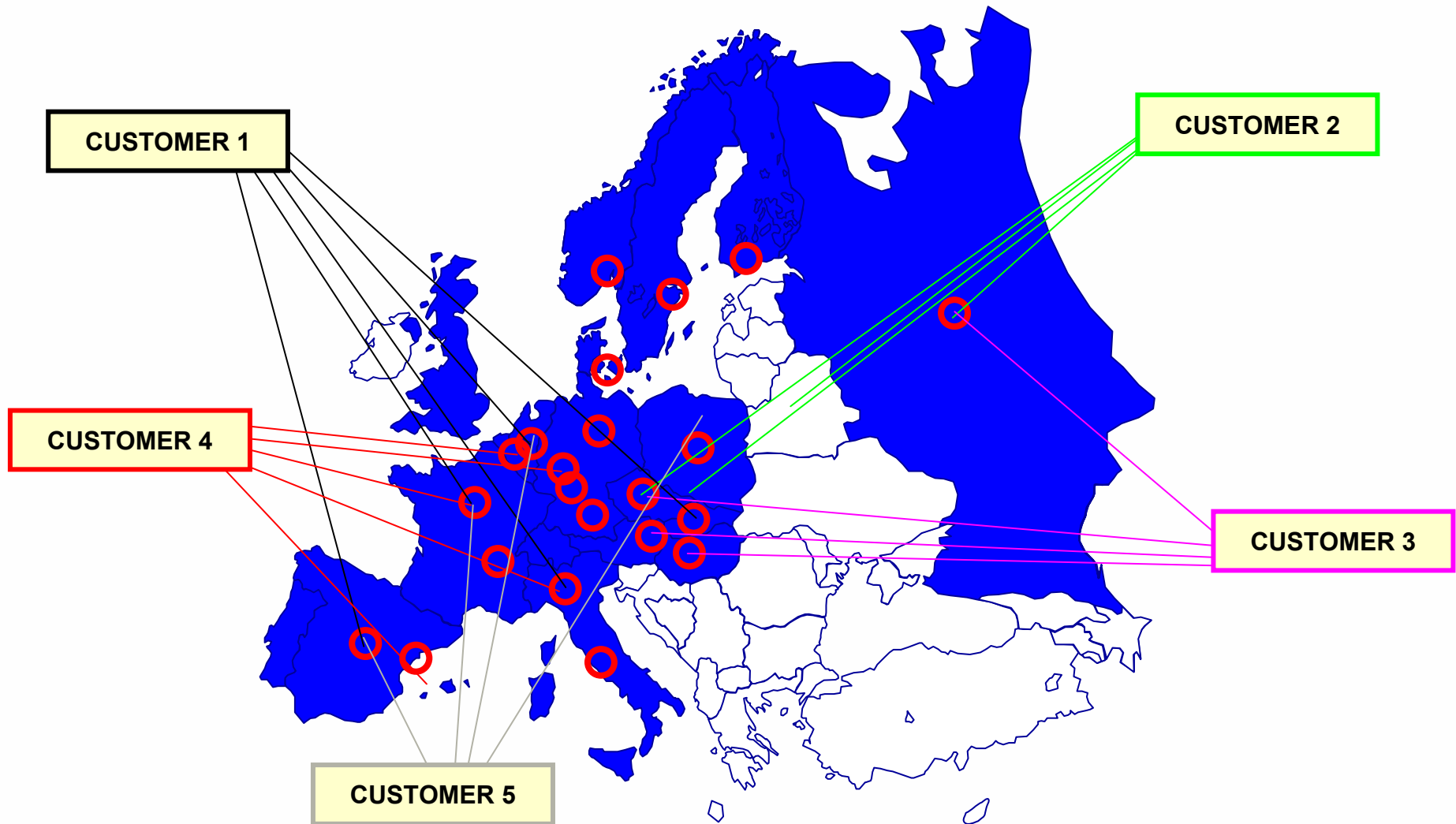
(2002 = 100)



Some Recent Cases to Illustrate Our Strategy



Since 2001, growth is concentrated in our main strategic locations



The Change in Customer Partnerships

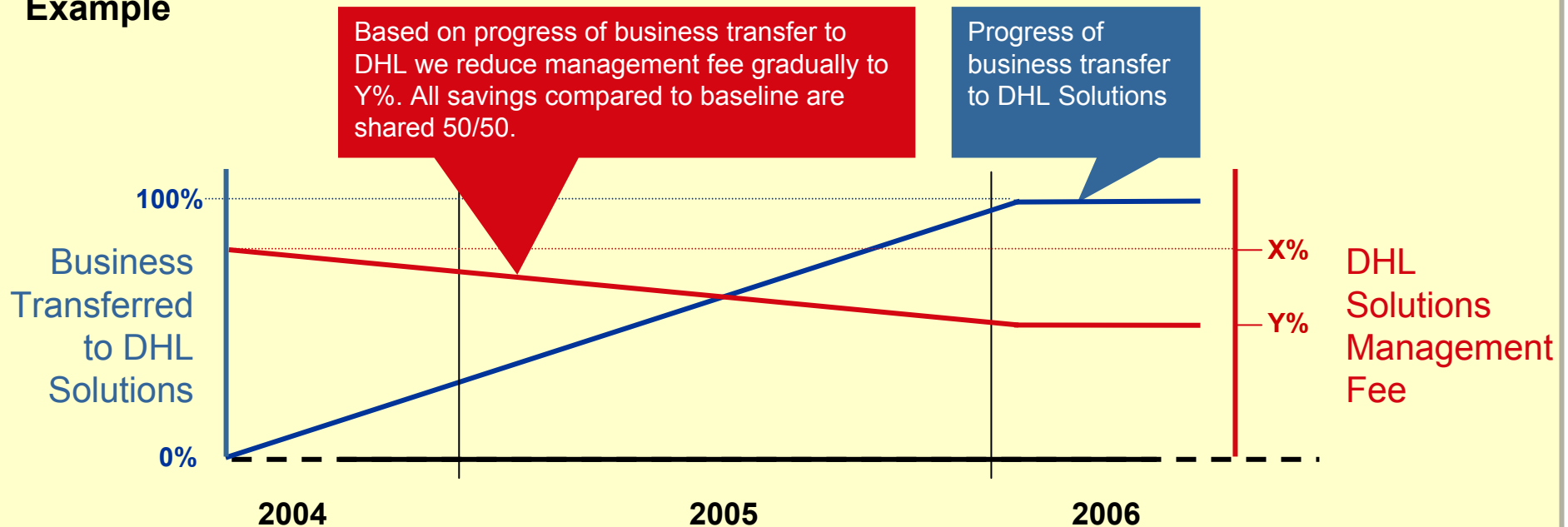


- Traditionally: long-term partnerships with customers (annual attrition rate < 10%)
- Customer focus today shifting more towards both Supply Chain Optimisation and cost reduction

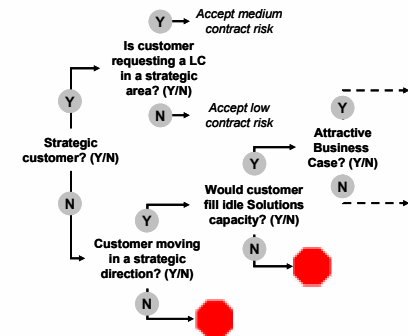


- New commercial models needed with incentives for both partners to take cost out of the supply chain
- In future: quality of the partnership will be driven by the added value we bring to the table instead of the contractual terms alone

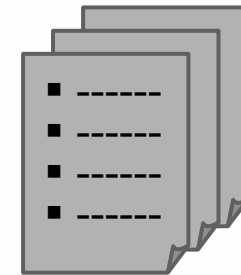
Example



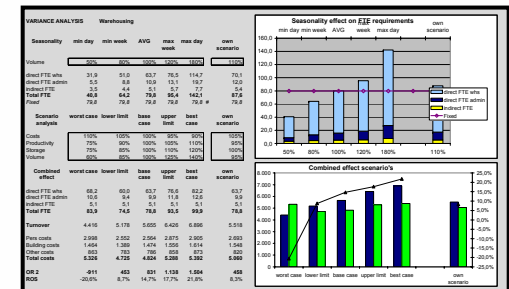
1 Ensure Strategic Customer Fit



2 Use Traditional Risk and Legal Analysis



3 Use Advanced Cost Modelling and Control (ABACUS)

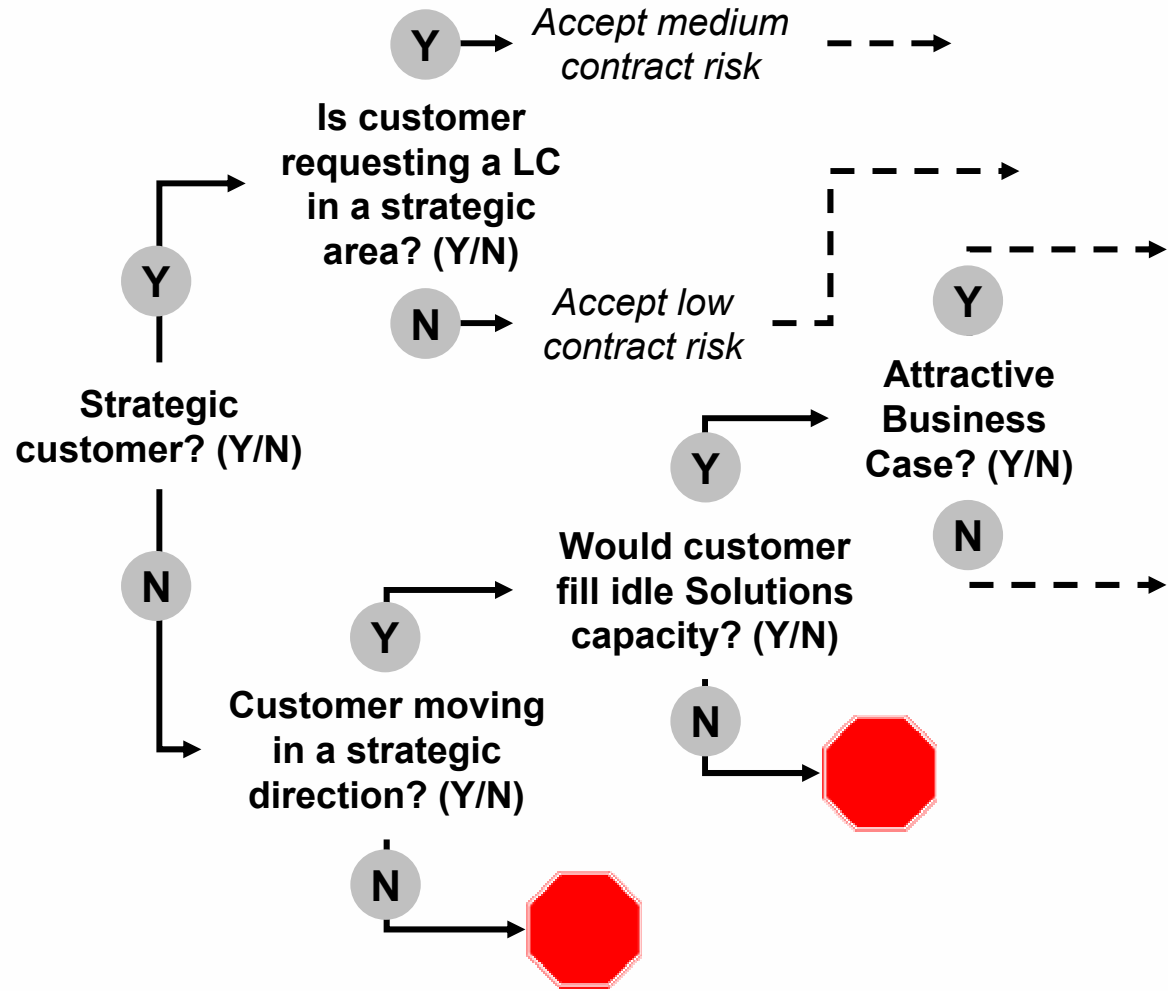


ILLUSTRATIVE

Principles

- Customer Strategy:**
 DHL Logistics growth will come mainly from multinational customers in targeted segments
- Geographic Strategy:**
 Operations outside strategic locations are only possible for customer-dedicated operations, with lease and personnel back-to-back contracts

Decision Tree



■ Reliable Cost Calculation

- Standardized cost calculation methodology and tools
- European cost, rate and productivity databases

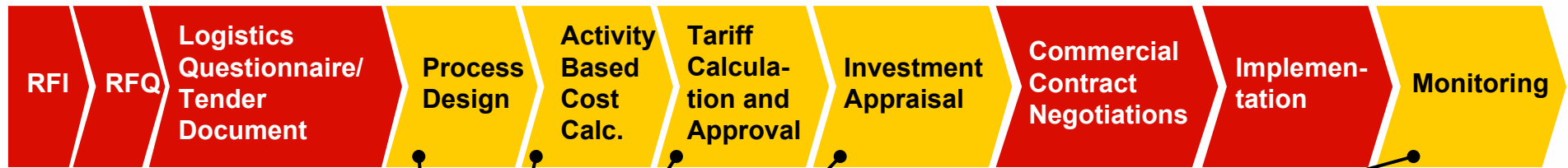
■ Risk Management

- Mandatory customer contract analysis
- Global insurance program handling & reporting
- Claims handling & reporting

■ Governance

- Clear authority levels / approvals required for both offers and contracts to be signed
- Systematic, regular contract and performance reviews

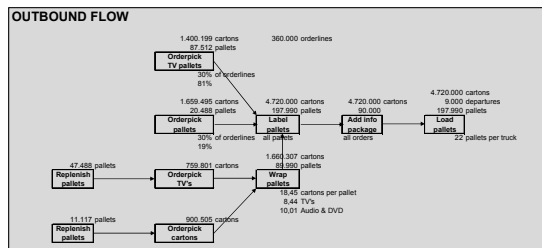
ABACUS CL Tendering Process Support



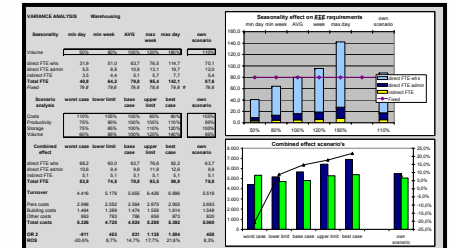
ABACUS Activity Based Costing Tool

- Generates a quantitative basis for new tariff proposals using realistic standard costs
- Calculates required resources (FTE, equipment and space) for new organizations using volume forecasts and productivity information
- Supports customer and process profitability analysis with an Activity Based Management Model

Screenshots



type	description	annual volume	unit	annual cost	unit cost	basic hourly cost	hours required	FTE required	basic labor cost	unit labor cost	unit overhead	unit margin	unit interest	unit overhead	unit margin	unit interest	unit overhead	unit margin	unit interest	unit overhead	unit margin	unit interest	
L81	Book-Industriemaschine gr 1	25,200	Y	1,420	56.35	17,820	8,600	8,600	123,420	4,900	120,000	52,107	21,200	1,200	122,000	52,107	21,200	1,200	122,000	52,107	21,200	1,200	
L82	Industriemaschine gr 2	21,800	Y	1,420	65.14	15,120	8,500	8,500	109,800	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L83	Industriemaschine gr 3	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L84	Vorrat-gr 4	1,420	Y	1,420	1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
L85	Industriemaschine gr 5	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L86	Industriemaschine gr 6	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L87	Industriemaschine gr 7	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L88	Industriemaschine gr 8	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L89	Bank-Industriemaschine gr 1	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L90	Bank-Industriemaschine gr 2	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L91	Bank-Industriemaschine gr 3	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L92	Bank-Industriemaschine gr 4	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L93	Bank-Industriemaschine gr 5	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L94	Bank-Industriemaschine gr 6	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L95	Bank-Industriemaschine gr 7	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L96	Bank-Industriemaschine gr 8	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L97	Bank-Industriemaschine gr 9	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L98	Bank-Industriemaschine gr 10	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L99	Bank-Industriemaschine gr 11	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000
L100	Bank-Industriemaschine gr 12	18,800	Y	1,420	75.53	13,680	7,800	7,800	95,400	51,180	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000	13,000	125,000	138,000	80,000	175,000



We at DHL Solutions understand:

- the market segments in which we compete
- the companies we target to do business with
- where we want to compete geographically

We have the capabilities:

- to further build and grow our profitable business
- to manage risk from the onset
- to react to changing customer demands

