

2011

Lean Initiative-Warehouse Consolidations

South Region

March 10, 2011



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Supply Chain Big Rocks

- Increase the in-stock rates
 - Additional volume
 - Top-line growth
- Increase product freshness
- Remove waste
 - Additional expenses associated with satellite facilities
 - \$\$ inventory reduction



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The Lean Journey

CI is a journey, not a destination



Key Themes we had to keep in mind

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- Connectivity....
- Experiments are essential to learning....
- Normal vs. Abnormal
- Visual Management & Standard Work
- Engaging People is essential to sustainability and problem solving



Coca-Cola Bottling History - 125 Years and Growing

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Coca-Cola Bottling History-125 Years and Growing

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- Not much change during the company's history
 - Product produced at manufacturing plants
 - Shipped to remote distribution centers
 - Unloaded at the DCs and put in inventory
 - Taken out of inventory to build customer orders
- Consolidation had occurred
 - Bottler Ownership had consolidated from almost 1,000 in the 1970s to less than 100 in 2010.
 - Number of Distribution Centers remained high



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Lean Thinking



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What Are We Trying to Accomplish?

Eliminate Waste * Reduce Variation * Compress Lead Time

Broad Goals

- Reduce variation with level scheduling
- Eliminate waste by reducing inventory
- Compress lead time by:
 - Being demand driven (pull)
 - Building connectivity in the market, sales and production centers
- Be our customer's most valued supplier
- Make a strong company
 - Driving cost out to increase profit (ours and our customer's)
 - Improve product freshness
 - Ensure company longevity



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Warehouse Consolidation Strategies



Consolidation

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Cross Dock

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Warehouse Consolidation Process

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Performed an Analysis That Determined Cost Structure for each Scenario

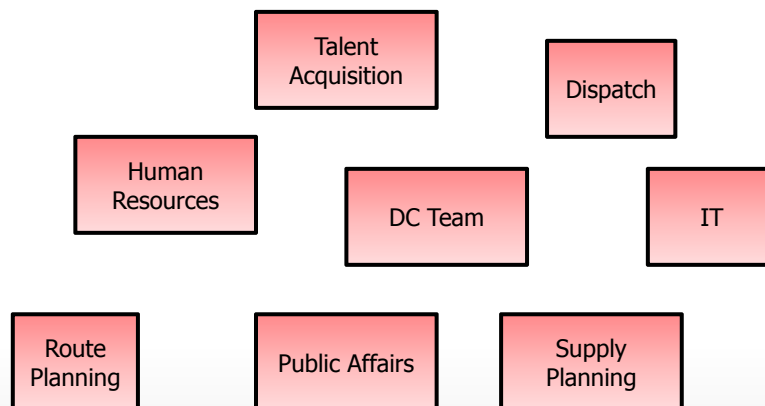
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- Developed a list of potential consolidation projects
- Analyzed the following
 - Distance from manufacturing centers
 - Capacity of operations likely to gain volume/loading activity
 - Freight savings
 - Delivery penalties
 - Operating Expense Impact
 - Potential sale of property if the DC was closed
 - Capital Avoidance
- Required Local Expertise
 - Quality of the roads
 - Actual time to and from Combo Warehouse to drop sites or new customers



Defining a Team Effort

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Process to Execute Warehouse Consolidation Initiative

- Each Project has an owner
- All functions participate in the process
 - Supply Chain
 - Sales
 - HR
 - IT
- Each step in the process is detailed
 - What needs to be done
 - Who is responsible for getting it done
 - Projected completion date
- Progress is reviewed each week during a conference call



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Consolidation Projects Produced Additional Ways of Removing Waste



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Standard Shipping Routes

- Standard Loads
 - Loads with fixed SKU mix
 - Buckner & Fossil Creek Round Trip
 - 4 trips per day
 - Base # of loads per day on fixed schedule
 - San Antonio to Austin – 16 per day
 - Fossil Creek to Waco – 4 per day
 - Includes backhaul of 2 per day from CCNA Waco
- Eliminate low volume lanes to enable frequent/small lot replenishment
 - Phase 1. With sourcing changes, eliminate lanes with < 1 load per week
 - Enable daily replenishment wherever feasible



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Driving Fleet Utilization

Current Situation

- Bulk delivery to retail customers is primarily relegated to early morning through mid afternoon. This leaves the delivery equipment unutilized during evening and late night.
- In some areas, we have separate equipment for Inter-branch transfers, which is typically utilized 2 shifts per day.
- In other areas, we are hiring out loads to common carrier to replenish branches.

The Opportunity

- Utilize bulk equipment during off-shift to move branch replenishment loads.
 - Increase fleet utilization
 - Reduce cash operating expenses
 - Develop standard work



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Advantages

- Drives fleet utilization
- Standard work in facilities
- Shorter lead time on SKU mix per load

Project Nexus

Identified \$2M dollars in savings for 1 of 6 market units, utilizing internal fleet over outsourcing



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Warehouse Consolidation Results



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South Business Unit – Facility Comparison

Facility Type	2008	2010
Combo Centers	12	10
Plants	3	3
Warehouses	55	41
Cross-Docks	0	6
Double Bottoms	8	9
Total Wet Locations	70	54

Confidential



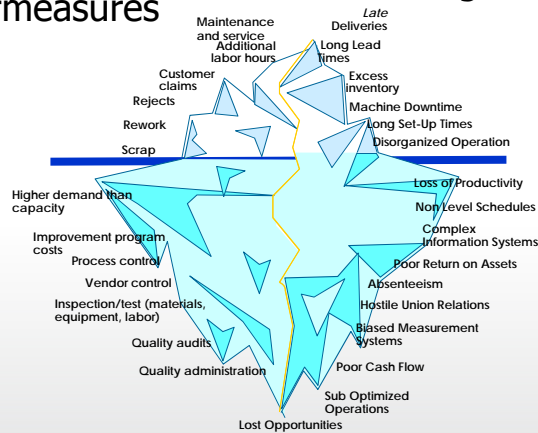
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What Did We Learn On Our Lean Journey?



Lessons Learned

- The Iceberg Theory - lowering the water level exposes hidden problems
- A culture of problem solving becomes critical
- Must implement immediate and long term countermeasures



Reflections – “Believing is seeing”

- Lessons from Mr. Yamada
- Lean (kaizen)....
 - Begins with experimenting – “you don’t know what you don’t know”
 - Is on the job training – “your bird’s eye view increases as you learn”
 - Is a management tool to fix problem. – “waste hides problem – iceberg theory”
- Paradigm shifts we had to make
 - No problem...is a problem
 - Failure can be good, if it leads to countermeasures
 - Leadership must be strong to press forward when the results don’t *feel* good

"Success is not final, failure is not fatal: it is the courage to continue that counts."

Winston Churchill

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Had to Overcome the Culture of "Best Foot Forward"

- Coca-Cola has always had a culture of putting our best foot forward
 - Spent time talking about "Best Practices"
 - Did not talk publically about the "Problems"



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Had to Overcome the Culture of "Best Foot Forward"

- Even Senior Leadership fell into this trap
 - North America Leadership was in Ft Worth June 2010
 - South Business Unit Team spent an afternoon taking them through our Lean journey
 - Talked about the good results
 - Spent a lot of time talking about the not so good results
 - The presentation fell flat with some members of the audience because they weren't used to hearing about the misfires



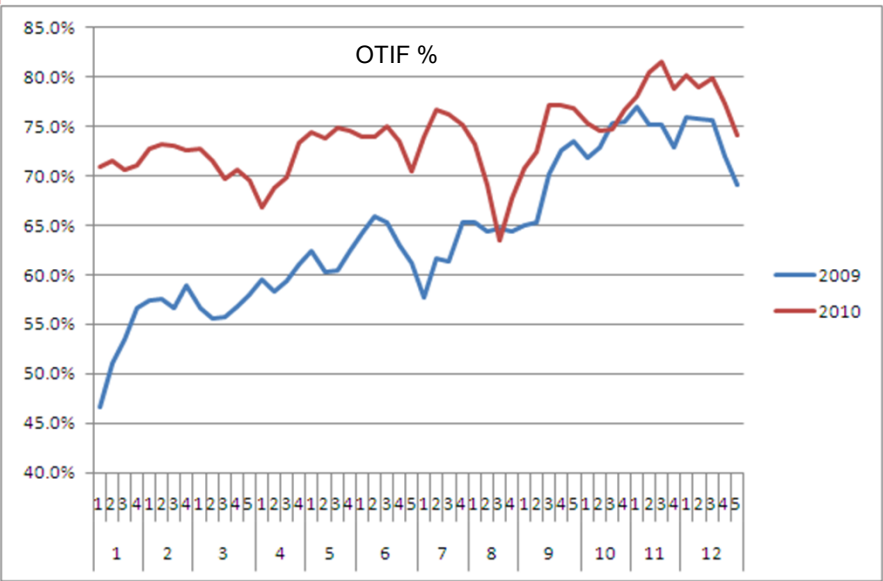
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Financial Results



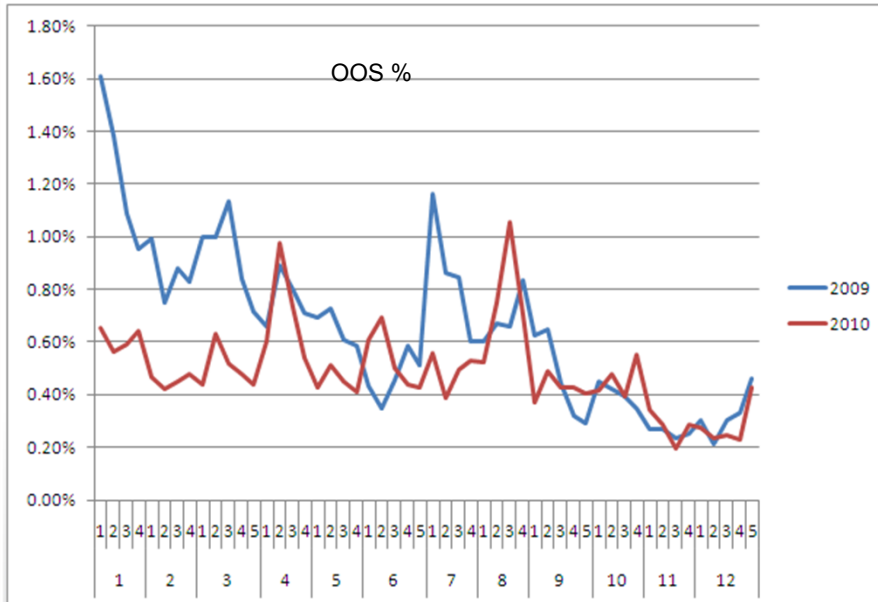
South Region - Dec 2010 YTD

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South Region - Dec 2010 YTD

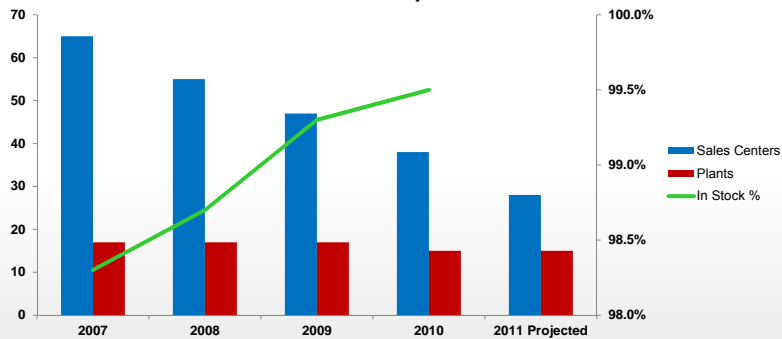
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Lean Initiatives at Sales Centers

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- Consolidated Sales Centers into Hub
- Demand Based Replenishment
- Standard Shipping & Receiving Routes
- Purchased Product Inventory Reduction



What have we accomplished?

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Eliminate Waste * Reduce Variation * Compress Lead Time

Target Area	Original State '09	Current State 12/10	% Improvement
Warehouses			25%
Plants			13%
Scrap			47%
Inventory (avg.)			18%
Customer Service (OOS)			28.5%
Customer Service (OTIF)			17%

