

Leadership Growth Opportunities

With the addition of the new DC manager, we will forego any individual assessment of members of the leadership team. He needs time to observe and form his own opinion of his staff. Our comments are general in nature based on our experience in the past weeks.

Process Creation Training A valuable insight we gained from the physical inventory is a general misunderstanding of process. The team at the DC has incredible dedication to keep moving. We need to help instill the ability to create processes to channel activity. Some of the activity driven by the leadership team was counter-productive.

Leadership Training We strongly advocate teaching leadership teams the three responsibilities of management. They are:

1. Give your employees the tools and materials to do the job.
2. Provide systems that let them know what you expect.
3. Provide systems that give continuous feedback on how they are meeting those expectations.

While much of what we do is providing digital tools to meet these responsibilities, it is possible to meet them without a single computer system. Many of the tools we teach are visual indicators or methods to control workflow. Not understanding the reason for the electronic tools diminishes their value.

Title 2 has a training program we put together over the past two decades that teaches leadership groups about identification of constraints, building processes to exploit capacity, the responsibilities of management and how meeting those can magnify worker impact, and a list of other benefits. We would be happy to provide that training, if XXXXXXXX thinks it would add value.

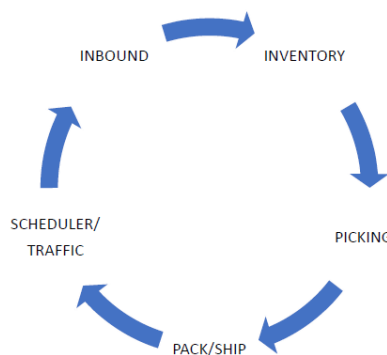


Figure 6 Leadership should be aligned along functional lines

Employee Improvements

We understand there was a large employee fallout during the move to the new DC. The DC is now in an area that has better access to qualified pickers, but also has more competition for the better workers. We believe there are some things we can do to improve recruitment, training, and retention of the workforce.

Build Stable Workforce XXXXXXXX needs a stable core of full-time employees. These are the base load of labor that is required during most of the year. As we modify the operating model, we can adjust this headcount. We can convert the best temps to permanent when we need to add headcount. We can use attrition to reduce headcount. As our capacity model improves, we will know the anticipated headcount at the bottom of the season. This headcount should be filled with permanent employees. The core of knowledge and culture is easier to maintain this way.

Workforce Training Training programs for temporary employees are necessary to ensure we are instilling the XXXXXXXX way. We believe that employees get more satisfaction from work when they know they are “winning.” We need to teach what winning means, and how to get there. Training temps and giving them the feeling of accomplishment will help with retention. While XXXXXXXX isn’t the best paying company in the valley, it can compete for better workers if those employees enjoy working here more than at the higher paying companies.

As we simplify processes and document best practices, we need to incorporate those changes into the training program. We can also use development of the training materials to better understand what complications need to be removed from the processes.

Our goal should be processes and training that allow a new temp worker to be up-to-speed and operating solo within four hours. An employee that can feel confident about work quality after a half day is more likely to return than one that is confused several days into the assignment.

Basic Discipline We must start to drive the basic disciplines that control activity we can see. That helps drive discipline in areas we cannot see. Using break bells eliminates the “time confusion” around work periods. Employees are expected to perform their duties until break starts. They are expected to be back at their workstation at break end and shift start. The bell serves the function of disambiguation.

If employees don’t follow the rules for things we can easily observe, they will not follow the rules for things we cannot easily observe.

General Concepts

There are several general concepts we are using in this document we felt were important to review. These are relatively new concepts or repurposes of existing concepts. We will not go into the details but want to give a general understanding of the important principles.

Continuous Replenishment/Picking The concept of continuous replenishment and continuous picking is a hybrid of traditional picking from backstock and wave picking a forward pick area. The tools available in modern WMS allow us to develop strategies to calculate picking and replenishment work in a continuous queue. We get the replenishment quantities required for a UPC now, and as we go further into the future with planned picks. Instead of calculating a wave of picks to replenish, we calculate the quantity required for all picks in the queue and order those replenishments as required for the highest priority picks first. If we can satisfy future demand in a single replenishment or satisfy multiple upcoming lines of replenishment in close proximity, that work is created as it would be in a wave replenishment setup.

Picking is similar. Picks are executed on a next-come/next-served basis down a work queue of tickets sorted from highest priority to lowest. Pickers that zone pick get work for their zone in its subset of that overall queue. If zone picking isn't desired, all pickers will work the entire pick area. That area can still be optimized for proximity picking. If designed with enough foresight, picking methodology algorithms can have built-in fail safes to move capacity during times of heavy demand. This movement of capacity can be accomplished automatically or reserved for management decision. The tools can be sophisticated if we set up the data collection correctly.

The advantages of continuous replenishment/picking include shorter drop-to-ship times, better replenishment effectiveness, improved inventory turns, and more agile pick face setup.

While this method can be used in our current layout, the forward pick module is ideal since picking and replenishment wouldn't share aisles.

Flex/Static Pick Face Allocation The concept behind the flex/static model is employed to balance between quick drop-to-pick times and efficient use of real estate. Static pick faces have product that resides there, and we always desire to have them close to full. Flex pick faces are designed to be empty and residual units in a flex pick face are not desired.

Setting static pick faces is a function of unit volume and the volatility of demand for a UPC and its related Style/Color group. Ideally, we would ignore Style/Color and treat each UPC as a discrete item that earns pick face on its own merit. We do not have replenishment systems that are

robust enough to do this at XXXXXXX, so we keep a Style/Color group together for ease of put-away and replenishment.

The new pick face layout is designed using this method. While there are a few anomalies, Style/Color groups are generally kept together. The pick face real estate is assigned based on reducing walk times for the most popular Style/Color combinations. Ten high volume UPCs have pallet sized pick faces. Flex pick areas are reserved at strategic locations, always assigned at a location with a lower alpha-numeric location ID so that they pick first, reducing the risk of residual. Items without static pick faces get flex pick faces with higher location IDs, creating a flex module that will generally have residual inventory that can periodically be cleaned through a take-all order or a cleanout “wave”.

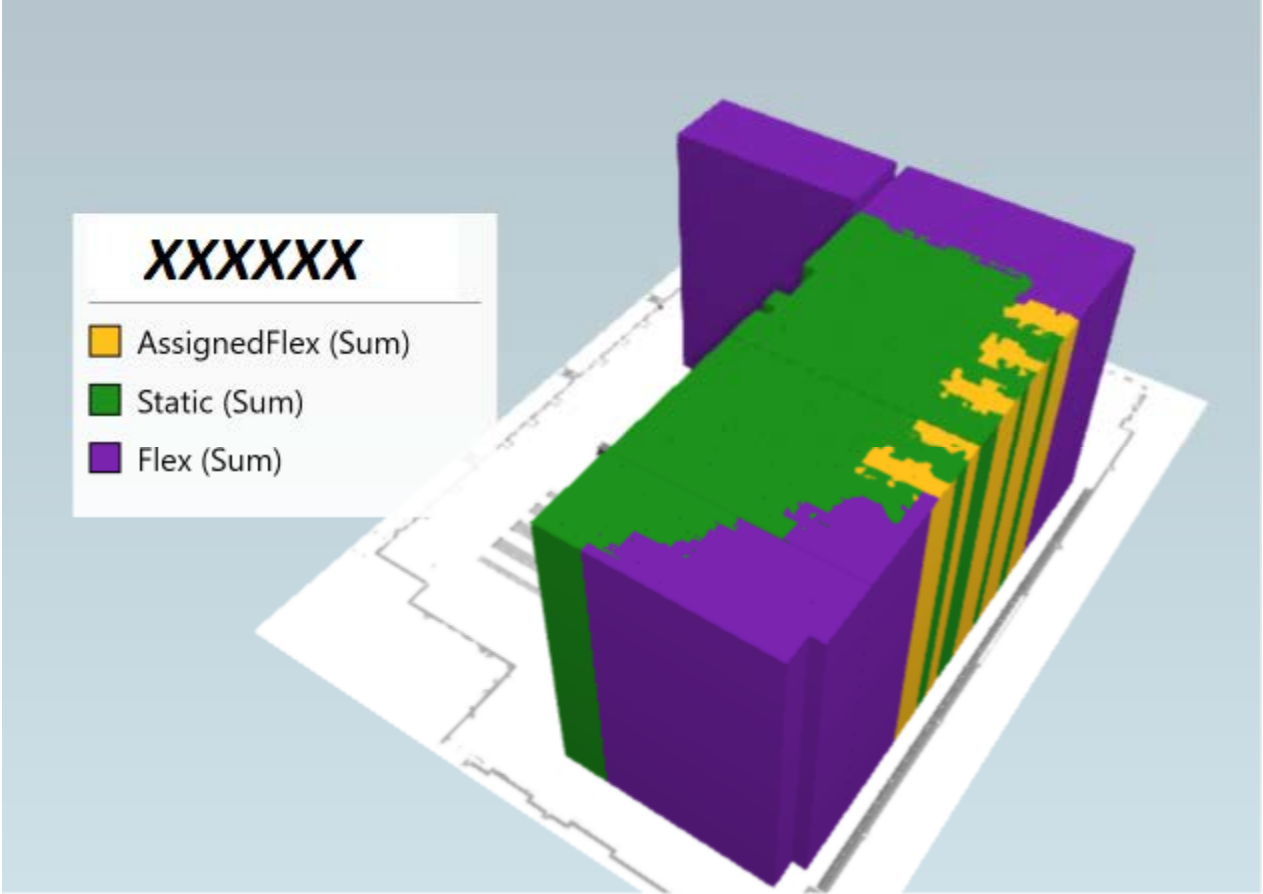


Figure 7 Modeled pick face slotting with static pick faces (green) occupying pickfaces closer to packaging. Slower moving items get flex pick faces (purple). The yellow represents overflow for a UPC, keeping the picker in the lanes near the static UPCs.

Replenishment Density versus Pick Density Part of the misunderstanding of setting smaller pick faces and replenishing more frequently is not valuing the different densities of each work type. Since most of XXXXXX's product comes in cases of 12, each replenishment move has a density of 12 or a multiple of 12.

XXXXXX's pick density for non-case picks is generally less than 2. For each replenishment move, we get six or more times that in pick work. Using a case pull area ensures that our replenishment timing isn't as critical until we get better tools to generate and monitor work.

When we also consider that pickers are walking and replenishment is done from a forklift, the multiplier effect on overall value is even higher.

We want to shift work from picking to replenishment where possible by moving UPCs closer together.

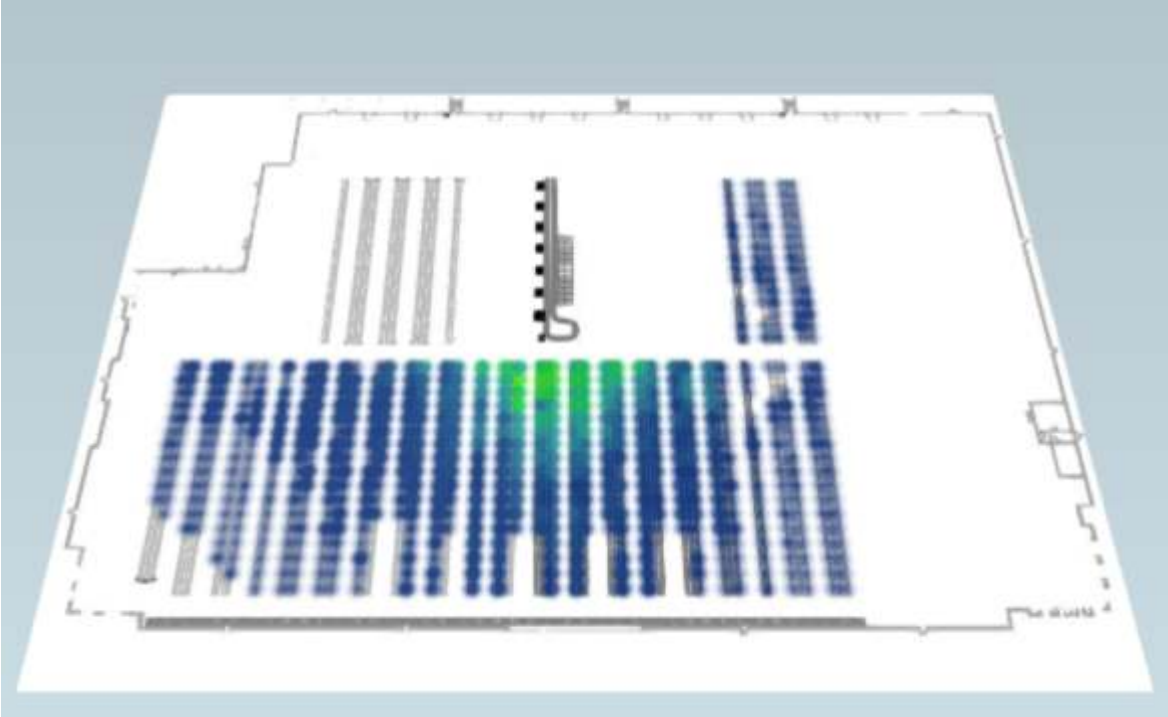


Figure 8 The new slotting scheme at XXXXXXXX takes into account higher density (fewer moves) for replenishment. We want to keep the pickers in the lanes closer to shipping.

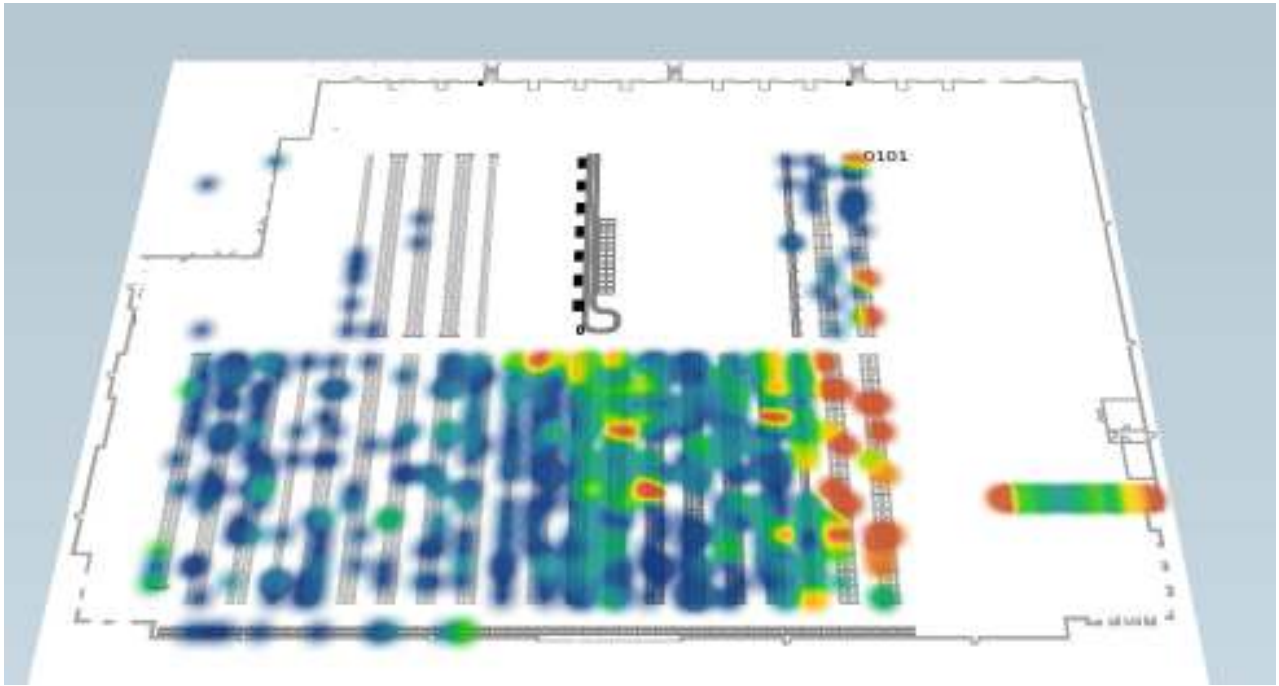


Figure 9 The previous slotting kept high volume products together, closer to backstock. The concentrations on this heatmap show that pickers walked past large swatches of slower moving inventory to get to bulk style picking.

Holistic Approach We will often refer to using a holistic approach to solving problems. We think that with the basic nature of many of XXXXXX's challenges, concentrating on the symptoms will not yield the results we need. Some of the issues we see at the DC are the result of what we do upstream. Managing order dates is an example.

We also see that what we do at the DC can have huge positive impacts at the main office. Once we have order scheduling under control, the constant inquiry and expediting of orders will not be necessary. Getting an order expedited should be as simple as affixing an expedited date. Dating is not the only function affected, but is probably the most visible.

The systems we advocate are ones that allow the company to be effective, not just the distribution center.

Next Steps

Title 2 is prepared and able to assist XXXXXXXX in any capacity needed. We have extensive experience in WMS selection and implementation as well as warehouse design and project management. We have experience in making modifications to existing facilities with no interruption to shipments or service proposition. Title 2 is also intimately familiar with XXXXXXXX's business which means that there is no learning curve required to begin the phase two project management.

Being able to define exact timelines and project costs at this stage is completely dependent on the level of engagement desired by XXXXXXXX and the commitment of local resources to the project. We are comfortable in saying that having a new WMS selected and implemented before the 2020 season is possible with minimal risk but will require starting immediately. And will also require considerable commitment from XXXXXXXX's employees as well. Title 2 is able to dedicate resources to manage the selection, configuration, training and implementation of a WMS to alleviate the demand on XXXXXXXX's internal resources however XXXXXXXX's employees will need to be involved in the design and be available as necessary during the configuration and implementation.

We welcome the opportunity to discuss your project, your required level of engagement and timing on a phase 2. We recommend a call to discuss your questions about this plan and how we can help with phase 2.

Appendix A

XXXXXXX DC Handoff

Pick / Replenishment Management You must not let Replenishment get too far ahead of picking. As you replenish the pick area, you fill the “Flex” locations up with residual product. This product picks clean (for the most part) and makes way for future Replen work. If you Replenish too much (without performing the pick work) , you risk “locking up” the warehouse. A good rule is to only replenish what you plan to pick now. If you do not plan on picking for a day or so, hold off on the Replen. It is ALWAYS easier to manage orders on the computer than it is to print it out and keep track of the paper.

Scheduler Training An instruction sheet has been created for the replenish build (and reset) steps to be performed by the scheduler and 2nd shift supervisor. These instructions should be updated as steps evolve.

T2 Automation Tools The automation scripts for Cycle Count Processing and Pick Ticket Printing are running on XXXXXX's RDP server. These RDP sessions (3 in total) need to be open on a desktop somewhere to allow the scripts to run. There is no user interaction required other than to make sure the sessions are open and scripts are running after any restart of the host machine. This is included in the instructions.

Pushback Capacity current capacity for pack and hold on the dock is determined by the layout of pallets, need to access individual pallets, size and number of orders that are ready to ship and several other factors. One significant limitation to pack and hold on the dock is that we cannot stack pallets on the dock. Each 40” x 46” space on the floor can accommodate only 1 pallet. Using racks, we can increase the density of each space fivefold. In the space of 2 pallets, we can put 10. When we have a WMS that can manage a located shipping dock, we can use push-back racks. These allow for multiple pallet racks to require only one forklift aisle for up to 5 pallets deep storage. For now, we should consider adding one additional rack to the dock end of each aisle, That would yield 13 racks, 10 pallets per rack, 240 pieces per pallet. We would pick up over 30,000 units of pack and hold with the addition of just 13 racks.