CUI

NOTICE: PRE-DECISIONAL AND DELIBERATIVE DOCUMENT. MAY CONTAIN INFORMATION THAT IS NOT RELEASABLE UNDER RELEVANT LAWS AND REGULATIONS OR THAT IS OTHERWISE EXEMPT FROM INFORMATION DISCLOSURE REQUIREMENTS.

Deloitte.

Leadership Advisory Board

Supply Chain Order-to-Dock Transformation

May 22, 2024

Executive Summary

- DeCA's average drayage was identified at ~10.0% of net sales. However, drayage is not inclusive of the **total cost of distribution.** At ~11.6% of net sales, DeCA's is paying **above the typical industry range** of 7-10%.
- **DeCA is paying for distribution and other services it receives** within its cost of goods, although methods vary by supplier as some absorb a degree of fees.
- Six future state supply chain configurations were evaluated against level of benefit, level of effort and perceived implementation complexity and those models are expected to **generate 8% – 35% reduction in distribution cost.**
- Performance benefits are achieved by **establishing contractual relationships between DeCA and its distribution partners**, which increase accountability via data visibility and performance service level agreements.
- Regardless of the chosen model, there are immediate opportunities to improve distribution performance today, and internal process changes that will need to be executed in order to achieve expected savings.
- **Further evaluation of models is required** to assess the appetite for managing impact and identifying the best path forward for navigating implementation challenges.

DeCA Order to Dock Transformation Project Approach

A three phased approach was used to provide financial and feasible recommendations to DeCA on the order-to-dock process

Current State

- ✓ Identify where and why existing supply chain capabilities are adding complexity and cost into the business process
- ✓ Gauge where, why and to what degree existing supply chain capabilities lag in commercial proven standards
- ✓ Develop a clear list of prerequisite opportunities that can be initiated to improve operational performance or drive cost savings

Complete

Baseline Cost Model

- ✓ Identify where and why existing supply chain capabilities are adding complexity and cost into the business process
- ✓ Gauge where, why and to what degree existing supply chain capabilities lag in commercial proven standards

Complete

Futures State Options

- ✓ Align leadership on high-level future state configurations and verse on expected benefits and risks
- ✓ Develop supporting material to help evaluation of future state configurations (business case, stakeholder analysis, process model)

Complete

Journey to final drayage outcomes

Given reticence to share exact costs, drayage was calculated in multiple ways to validate assumptions and justify use of industry benchmarks

Data collection

ACTUAL DRAYAGE RATERS PROVIDED DURING INTERVIEWS (% OF NET SALES)

2.64 - 11%

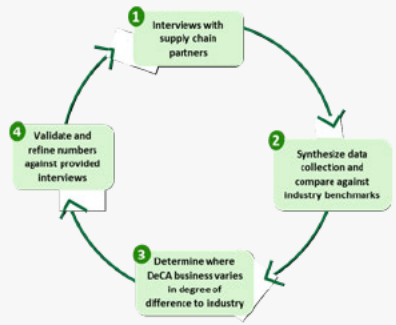
Initiated outreach to supply chain partners via interviews and survey tool:

Interviews (21 stakeholders)

- 9 suppliers
- 3 distributors
- 5 brokers
- 4 other entities (AAFES, MSRBC, AFMC, ALA)

14 additional suppliers surveyed

Data validation



Once collected data was synthesized, supply chain partners were re-engaged to confirm results

1. Interviews with supply chain partners
2. Synthesize data collection and compare against industry benchmarks
3. Determine where DeCA's unique business processes warrant added cost
4. Validate and refine numbers against provided data points

Baseline cost analysis

DeCA's CALCULATED DRAYAGE COST

~10.0%

Three calculation methods were used to reinforce and validate findings

1. "Bottoms up" approach determined drayage based on FY23 volumes, current distribution lanes, and standard cost drivers
2. Cost per case was calculated using total FDS case volumes and drayage rate ranges provided for ambient, chill and frozen
3. Broker feedback was used to calculate cost as a % of net sales estimates and service fees by distributor

“Drayage” is an incomplete view of DeCA’s cost of distribution

DeCA’s total cost of distribution extends past drayage into standard fees and military

Distribution cost as a % of Net Sales

Baseline Cost Analysis – “Bottoms up” calculation results

~10.0% + **~1.6%** = **~11.6%**

CALCULATED DRAYAGE COST | OTHER DISTRIBUTION FEES | TOTAL COST OF DISTRIBUTION

Other Distribution Fees

Exact fee structure may vary, but all of DeCA’s distributors charge suppliers itemized fees that hide the true cost of distribution given they are variable and charged upon occurrence. Each fee type can be managed or forecasted to a degree

Industry Standard fees

Fees regardless of distributor or distribution model:

- Fuel Surcharge

Negotiate cost

Business Model Fees

Fees expected given DeCA’s current model

- Handling for multi-modal shipments (AK and HI)
- Services to meet international trade regulations (i.e., heat treated pallets, health certificates)

Forecast these based on expected volume

“Inefficiency” fees

Fees used by distributors to recoup cost to serve specific suppliers/customers, including:

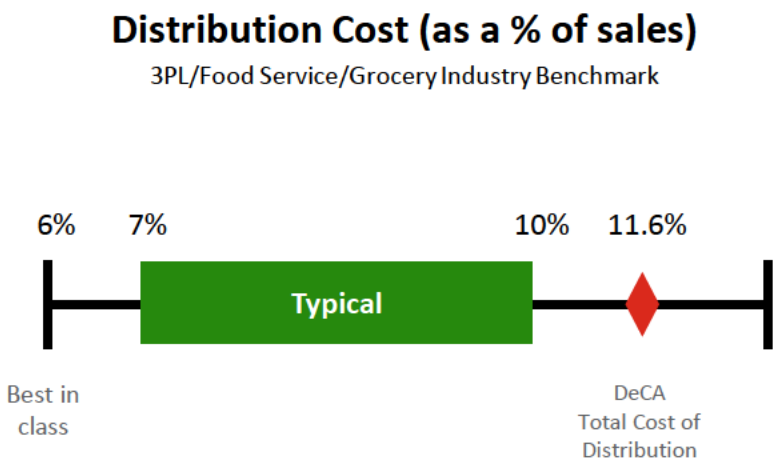
- Slow-moving fees
- Missing BOL/Missed appointments
- Non-conforming pallet

Eliminate these from habitually occurring via process/tech improvements

Distribution cost analysis indicated DeCA is paying a premium due to supply chain inefficiencies

DeCA's total cost of distribution exceeds typical range for food service or third-party logistics (3PL) distribution

DeCA is paying above typical range, and paying for premium distribution service



DeCA's unique supply chain processes result in supply chain inefficiencies that result in "premium" distribution services

DeCA's unique requirements across inventory, warehousing, and transportation create inefficiencies within a wholesale distribution model.

For example, military-only distribution centers demonstrate lower sales/square feet than expected when compared to food service industry benchmarks.

Military-only distribution centers	Estimated FY23 Sales / SqFT[2]	Benchmark Sales/SqFT	Warehouse Inefficiency Factor
DC 1	$ 716	642	0.90
DC 2	$ 494	642	1.30
DC 3	$ 831	1429	1.72
DC 4	$ 347	881	2.54
DC 5	$ 882	1429	1.62
DC 6	$ 284	881	3.10
DC 7	$ 246	881	3.58
DC 8	$ 363	881	2.43
DC 9	$ 277	881	3.18

Low sales/square foot would also increase likelihood of low truckload utilization

These costs are being passed onto DeCA today and reduce delivery of the benefit

DeCA may be offered “Tier 1” list price, but these savings are negated by distribution cost and additional supply chain management services provided

One supplier provides DeCA Tier 1 pricing but adds 8-15% to cover additional fees

Other suppliers absorb some degree of fees at the cost of trade funds

DeCA’s cost to serve is higher because DeCA’s distributors and suppliers are providing more services than they would generally provide to a traditional grocery retail client:

- Finance process management with dedicated resources (2+ FTEs per supplier to manage the rollup)
- Inventory liability due to “Guaranteed Sale” and lack of booked promotional orders
- Demand Planning & Supply Planning
- Ensuring item eligibility (product availability, item setup issues, and distributor changes)
- In-store merchandising and resets (recurring and one-time)

A blank sheet approach was taken to identify full scope of potential supply chain configurations

Using 11.6% of net sales as the baseline distribution cost, DeCA can generate between 8-35% in savings across potential supply chain configurations

Minimal degree of change and investment → *High degree of investment and change required*

1. Single distributor per store

Each commissary is served by one distributor vs. some having supply from two distributors

+ Improves distributors cost efficiencies by consolidating volume

– Does not offer further cost or performance visibility

9% savings
10.6% of net sales
$25.1M savings

2. DeCA contracts distribution with existing distributors

DeCA contracts directly with distributors on drayage. Inventory would continue to be purchased directly from suppliers

+ Distributor contracts establish service level agreements to manage performance

– No guarantee of a 1:1 cost reduction

21% savings
9.2% of net sales
$58.0M savings

3. Wholesale distribution model

DeCA contracts directly with distributors to provide goods and distribution (exclusive of demand creation services). DeCA would largely utilize / negotiate distribution partners' assortment, but contract as needed with suppliers on first cost

+ Eliminates need for financial roll-up

– Negotiations required to expand product and assortment selections

35% savings
7.6% of net sales
$96.3M savings

4. Wholesale distribution model + specialty distributors

DeCA contracts directly with a wholesale distributor for 97.5% of goods and retains specialty distributors to handle unique items (2.5% of volume)

+ Retains savings associated with wholesale model while providing additional avenues for specialty items

– Two distribution partners to manage

34% savings
7.7% of net sales
$92.9M savings

5. AAFES – All commodity types

AAFES would provide distribution for all commodity types. Assumes third party would be engaged to accelerate deployment

+ Overlap in transportation routes and assortment creates synergies

– Significant startup cost required for AAFES to support frozen/chilled commodities

26% savings
8.6% of net sales
$72.6M savings

6. Dedicated distribution

DeCA to own and operate their own distribution and continue to purchase inventory from suppliers. Assumes third party engaged to accelerate deployment.

+ Improves accountability for both cost control and product availability (assortment, delivery frequency impacts, distribution fees)

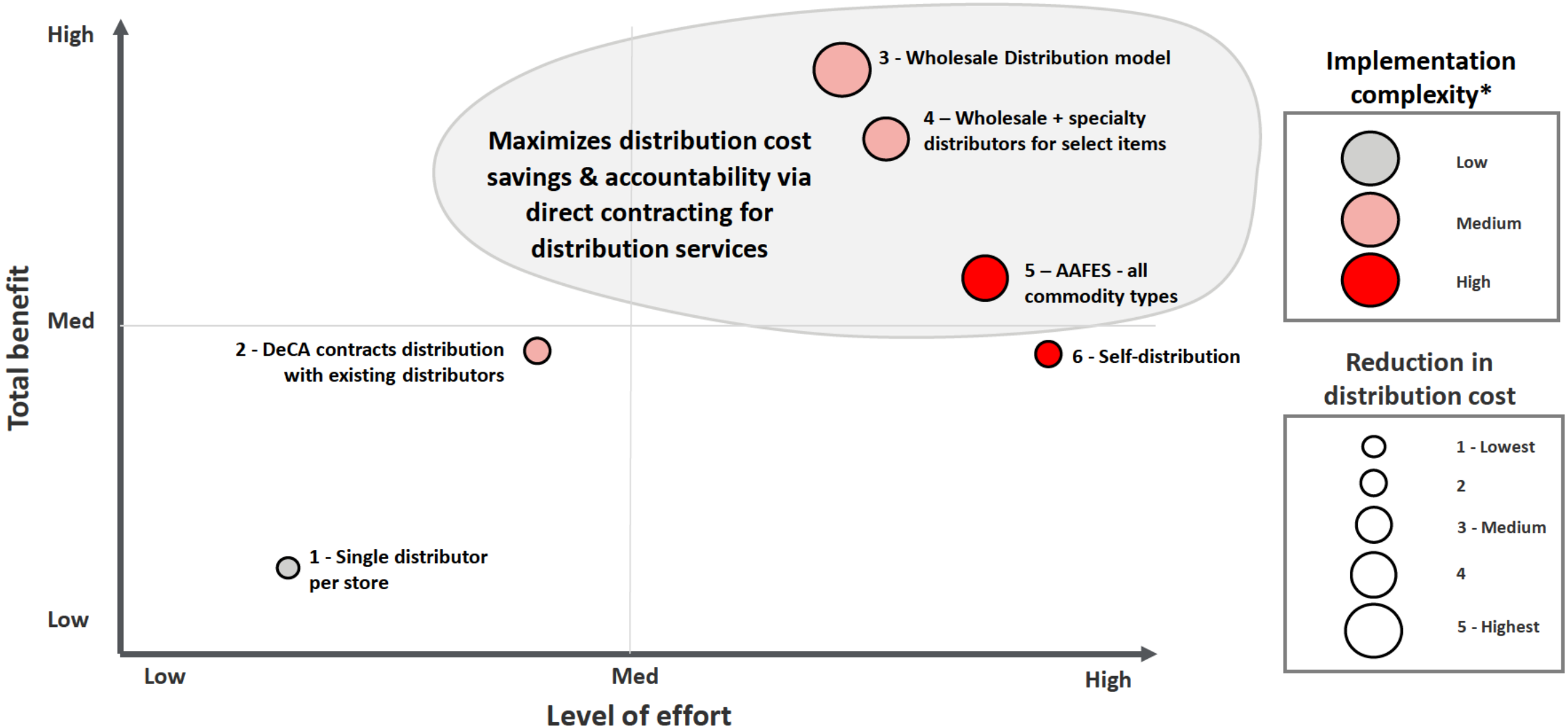
– Long implementation timeline due to acquisition and setup of new capabilities

8% savings
10.7% of net sales
$21.5M savings

Expected savings in relation to a calculated 11.6% baseline cost of distribution

Prioritized models pursue maximum benefit delivery and accountability

Prioritized models pursue maximum benefit delivery and create accountability by establishing direct contracting relationships with distributors



*Assessed risk of supply disruption or achievement of expected cost reduction due to implementation

DISCLAIMER – FIGURES ARE ESTIMATES BASED ON LIMITED DATA SHARED DURING INTERVIEWS, INDUSTRY STANDARDS, AND ASSUMPTIONS (FURTHER VALIDATION PRIOR TO IMPLEMENTATION MAY CHANGE FIGURES)

Link to further details in appendix

Generating expected benefits requires DeCA to increase focus on cost and performance management

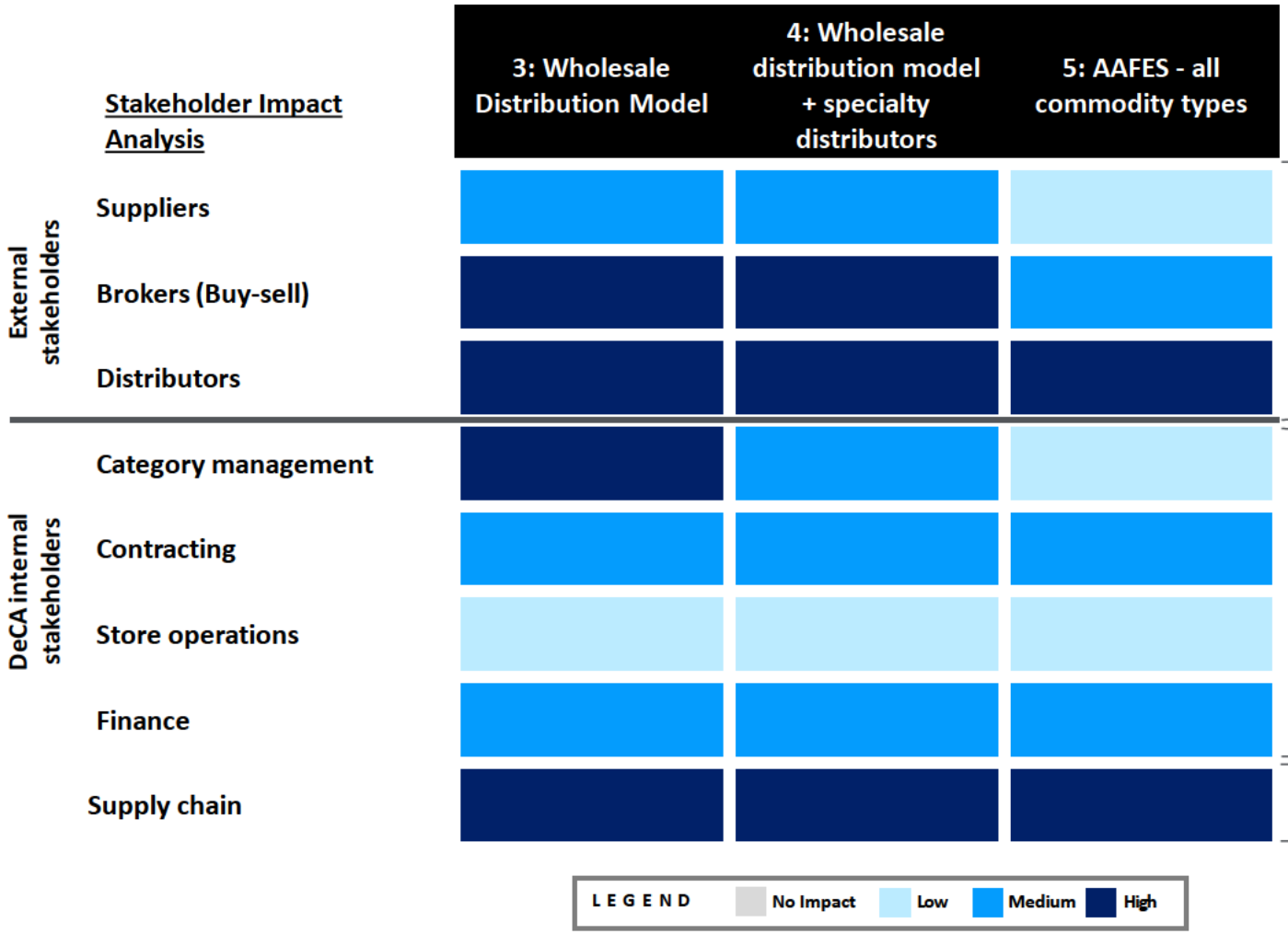
Regardless of model selected, active management of performance and cost metrics will be required to achieve expected savings

Benefits	How to achieve it
Increased Cost & Performance Accountability	• Develop contractual relationships for data visibility (cost and performance) • Conduct regular vendor (distributor/supplier) performance reviews and enforce service level agreements
Improve In Stock Rates	• Reduce ordering of discontinued products* • Confirm accuracy of DAX planned orders* • Measure if manual order adjustments improve In-Stock rates* • Improve inventory availability by sharing planned orders with distributors*
Reduced Warehousing Cost (including Occupancy)	• Increase efficiency of warehouses (increase sales per square foot) - Leverage shared warehouses to increase overall volume - Consolidate volume (one distributor per store) - Increased inventory turns (Slow moving SKU rationalization / utilization of upstream facilities)
Reduced Transportation Cost	• Increase volume per delivery (“load utilization”) • Establish business logic for optimizing loads (including ocean freight/ container consolidation)* • Optimize transportation requirements by transitioning from minimum replenishment to a time phased inventory plans* • Optimize delivery schedules to combine multiple stops per trip*
Reduced General & Administrative Cost	• Shift away from unique and complex financial roll-up process • Improve item eligibility management to reduce need for root cause analysis*
Reduce unnecessary Inventory Expense	• Measure and track inventory efficiency using available datasets (data from DeCA, distributors, and suppliers)* • Commit to booked orders for promotions*

***indicates immediate opportunities that DeCA can enact today**

Prioritized models will challenge business models of Supply Chain partners and DeCA's internal structure

Use stakeholder impact analysis to evaluate potential models and to mitigate risks to delivery posed by internal and external stakeholders



All three models will challenge the current business models for military-only focused stakeholders / services

Suppliers are expected to achieve operational efficiencies and cost savings from shifting away from military-specific processes

All three models would require a degree of process change across DeCA

However, once new processes are established, overall savings are expected due to reduced volume of supplier negotiations; ROAs; manual order adjustments; and financial roll-ups, respectively.

DeCA's supply chain organization was assumed to take responsibility for managing supply chain cost and vendor performance.

However, re-alignment of responsibilities across internal teams may aid execution of new business models and their associated processes (data analysis, new communication partners, etc.)

Link to further details in appendix

Key considerations as DeCA progresses with supply chain configuration evaluations

Internal discussions are required to align on DeCA's priorities and the business model nuances of pursuing each model

Implications	Key Considerations
Distribution cost savings estimates	Reticence to share exact distribution costs may be eliminated when facing actual decision
Stakeholder impact	Certain models will challenge business viability of long-standing business partners
Organizational change	New capabilities and processes may require new operating model and governance structure
Funding	Evaluate best approach to acquire funding required to meet anticipated operating costs (start up and recurring) and/or capital costs (Model 5 - AAFES)
Acquisition strategy	Identify optimal acquisition strategy and design business model to support targeted end state

Deloitte.

THANK YOU

Official Professional Services Sponsor

Professional Services means audit, tax, consulting, and advisory.

Designed by CoRe Creative Services. RITM1477016

Appendix - Table of Contents

Common themes - Independent of models

DeCA could quickly enact these process changes (collaborate, measure, and share) and strategies to reach their goals

Immediate opportunities

identified during the Current State Assessment

Inventory Planning

- Improve inventory availability by sharing planned orders with distributors
- Commit to booked orders for promotions
- Limit ordering of discontinued product
- Confirm accuracy of DAX planned orders
- Measure if manual order adjustments improve In-Stock rates

Distributor Warehousing

- Collaborate with distributors on assortment, when possible
- Measure and track inventory efficiency using available datasets (data from DeCA, distributors, and suppliers)

Distributor Transportation

- Establish business logic for optimizing trucks / truckload utilization
- Collaborate with distributors to size opportunities to reduce transportation costs

Recommended Steps Agnostic of Model

"no regrets"

Sourcing

- Establish and manage purchasing contracts with suppliers and/or distribution costs (data sharing) with distributors
- Allocate staff to manage vendor (distributor/supplier) performance reviews and enforce service level agreements

Inventory Planning:

- Transition from minimum replenishment to a time phased inventory plan (DAX supported capability)

Distribution

- Initiate network optimization study (including transportation assessment)
- Conduct a detailed should-cost analysis to determine model implications (DC locations, start up costs, RFP process, general counsel alignment, etc.)

Interview List

Conducting interviews with a range of supply chain partners offered a comprehensive understanding into DeCA's business model

BY THE NUMBERS

9
Suppliers interviewed
(7 large/ 2 small)

26+
DeCA personnel interviewed

3
Distributors interviewed

14
Additional suppliers surveyed

9
Brokers and other entities interviewed

2
Commissaries visited

Interview Outcomes

- Identify gaps and key opportunities for short-term and long-term improvements
- Identify and quantify cost drivers to DeCA's business model

Overview of interviews

Completed

Group	Company	Current state	Current state follow-up	Future state follow-up
Supplier – Large	(b) (4)	X	x	
Supplier – Large		X		
Supplier – Large		X		
Supplier – Large		X		
Supplier – Large		X		
Supplier – Large		X		
Supplier – Large		X		
Supplier – Large		X	X	X
Supplier – Small		X		
Supplier – Small		X		
Distributor		X	X	X
Distributor		X	X	
Distributor		X	X	X
Broker		X	X	X
Broker		X		
Broker		X		
Broker		X		
Other entity		X		
Other entity		X	X	
Other entity		X	X	
Other entity		x	X	X

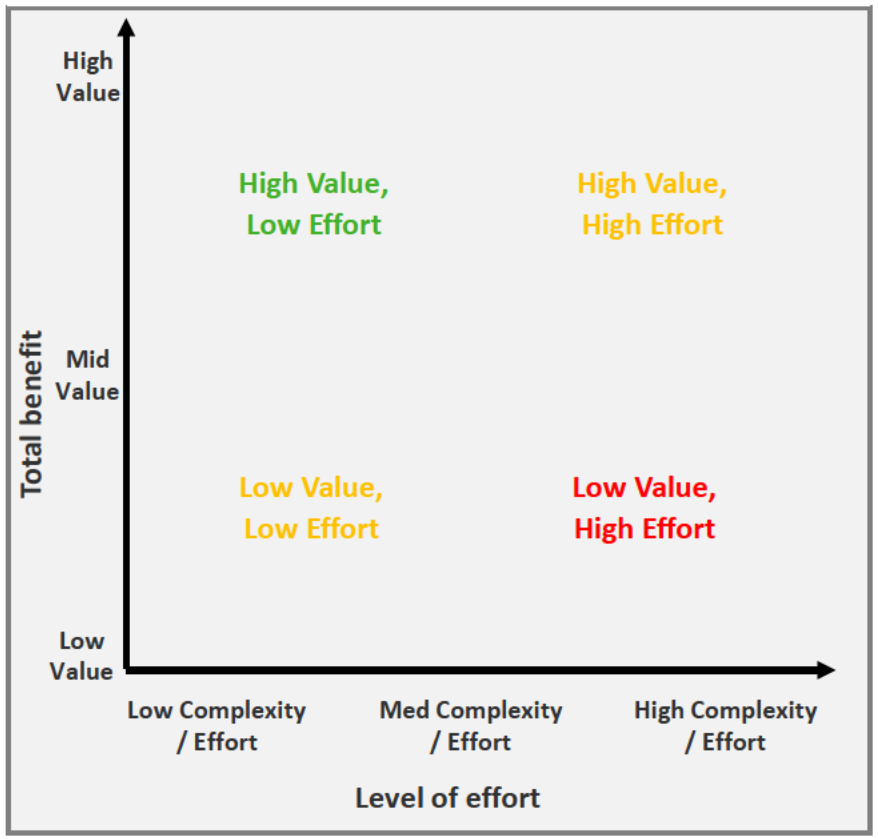
Completed (DeCA teams)

Group	Company
DeCA	Strategy/ Change management Supply chain Commissary teams / Store operations Category management ROA management OCONUS (Asia Pacific / Europe) Finance

Framework for prioritization of models

Assessing each model based on its benefit and effort to highlight options that are both achievable and offer value

Total Model Benefit vs. Level of Effort Analysis



Prioritization Framework			
Category		**Description**	**% Weight**
Total benefit	**Patron savings***	Measures the impact the initiative has on achieving the 25% savings goal for patrons	60%
	Supply chain accountability	Transparency and ability to manage activities within the supply chain, including impacts to DeCA's accountability throughout the process.	10%
	In-stock rates	Determined by comparing the number of items NIS (not in stock) on the shelves with the total number of active line-items assigned shelf locations	15%
	Sales (trade dollars)	Measures the impact the initiative has on sales growth, including unlocking sales incentives and trade dollars (outside of supporting the in-stock rate)	10%
	Business strategy support	Ability to support DeCA's strategic initiatives, and anticipated regulatory impacting US supply chains (i.e., prepared food, maintaining growth)	5%
Level of effort	**Process requirements**	Capability gaps and process changes required to get from current state to future state	20%
	Resource (people) requirements	Resources required to run model, including professionals required for implementing the initiative	20%
	Technology requirements	Tools/Systems required to execute the initiative	15%
	Timeline	Time required to implement the initiative	15%
	Required financial investment	Operating or capital expenditures required to implement and maintain the initiative; rules and regulations a business must adhere to when operating in an industry or market	10%
	Impact to supply chain partners*	The financial or operational impact the initiative may have on suppliers, brokers, and/or distributors servicing DeCA	15%
Risk	**Implementation risk**	The potential for a plan or model to encounter execution challenges/ implementation risks, including disruption to DeCA's supply chain, and ability to achieve expected initiative benefits.	100%

DISCLAIMER – FIGURES ARE ESTIMATES BASED ON LIMITED DATA SHARED DURING INTERVIEWS, INDUSTRY STANDARDS, AND ASSUMPTIONS (FURTHER VALIDATION PRIOR TO IMPLEMENTATION MAY CHANGE FIGURES)

Scope of future state models – Key assumptions for each model

Primary reason for increase / decrease over baseline cost

LEGEND: No Impact | Decrease costs against baseline | Increase costs against baseline

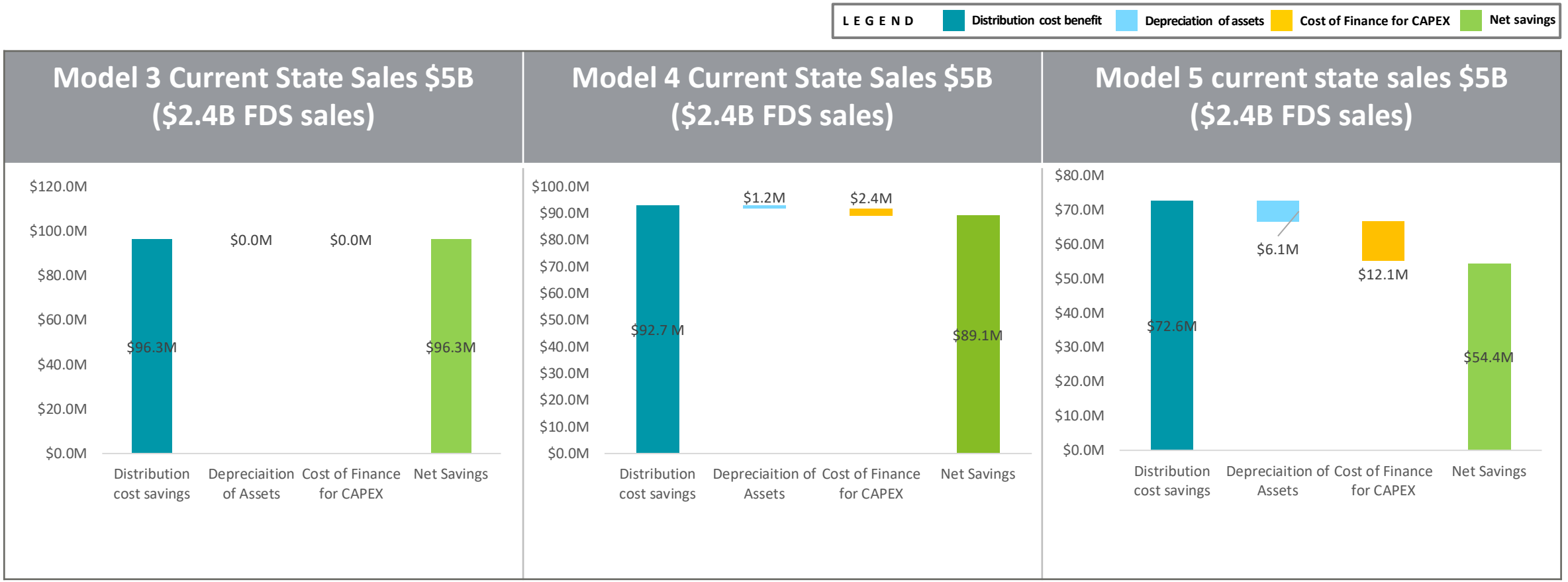
	Baseline*	1 - Single distributor per store	2 - DeCA contracts distribution with existing distributors	3 - Wholesale Distribution Model	4 - Wholesale distribution model + specialty distributors	5 - AAFES – all commodity types	6 - Self-distribution
Transportation - Truck	• Assumes 1 way transportation cost • Assumes 20% negotiated discount • Assumed additional fee for trips over 1,000 miles • Assumed FTL using the max RPD or minimum line haul • Utilizes current delivery schedule for stores	• Commissaries receive deliveries from a single existing DC • SpartanNash/Coastal Pacific distributor networks used as proxy for entire network	• No change from baseline model – assumes 21.1% reduction of cost	• Each store will be served from single DC which is nearest (commercial DCs) • All trucks will be shared and cost will be based on rate per distance	• Allocates 2.5 % of DeCA's total volume to specialty distributors • Represents three centralized "slow moving" DCs with AAFES DC locations (Newport News, VA, Waco, TX, French Camp, CA) • Assumes slow moving deliveries completed once per week • Each store will be served from single DC which is nearest (commercial DCs) • All trucks will be shared and cost will be based on rate per distance	• Utilizing AAFES DC locations (Newport News, VA, Waco, TX, French Camp, CA) • All trucks will be shared and cost will be based on rate per distance	• Assumes FTL using the max RPD or minimum line haul • Utilizing AAFES DC locations (Newport News, VA, Waco, TX, French Camp, CA) as proxy locations
Transportation - Ocean	• HI shipments are consolidated (via Coastal Pacific cross-dock facility in HI) and then sent to each commissary • AK shipments are sent directly to the commissaries	• 21% reduction in the number of containers due to reduction of 7 distribution centers	• No change from baseline model – assumes 21.1% reduction of cost	• No dedicated DeCA containers - Ocean Freight is calculated based on per case surcharge (duplicate for 4)		• No change from baseline model – AAFES uses similar model for ocean shipment consolidation with help of Coastal Pacific cross-dock facility in HI	
Warehousing	• Utilized current DCs • Commercial DC assumed efficient • Military DC efficiency calculated against industry average sales per sq ft	• Consolidated volume for all DCs and reduced number of DC by 7	• No change from baseline model – assumes 21.1% reduction of cost	• Assumed Commercial Warehouse efficiency = 1 • Utilized closest available DCs from current distributors, increase of 27 DCs from current state	• Assumed AAFES Warehouse efficiency for AAFES DCs = 1.46 (based on Coastal Pacific's efficiency in Model 1) • Assumed remaining Warehouse efficiency = 1 • Utilized closest available DCs from current distributors, increase of 30 DCs from current state	• Warehouse efficiency for new DCs assumed the same as Coastal Pacific from Model 1 • Assumed warehouse space will be attributed to DeCA (50% for model 5 and 100% for model 6) • Utilizing AAFES DC locations (Newport News, VA, Waco, TX, French Camp, CA) as proxy locations	
Operating expense	• Benchmark costs for different size (based on sales) of food industry were used for occupancy and G&A cost	• Other operating expense reduction = 5% • GAA expense reduction = 5%	• No change from baseline model – assumes 21.1% reduction of cost	• Same as baseline assumptions		• Synergy for GAA & Operating expenses due to sharing resources with AAFES = 19.40%	• 3% of distribution cost is added for 3PL partner to implement using a cost plus model
Resources investment	• Not applicable	• 5 FTEs will manage contracts • 2 FTEs are needed for 6 months to build the contract • Cost of one FTE per year (with benefits)= $121,250					
Investment	• Not applicable	• No investment required				• Capital costs investment is $243M for warehousing and trucks	• Startup cost considered for warehouses ($300 per sq foot) and trucks ($80K per reefer truck)

DISCLAIMER – FIGURES ARE ESTIMATES BASED ON LIMITED DATA SHARED DURING INTERVIEWS, INDUSTRY STANDARDS, AND ASSUMPTIONS (FURTHER VALIDATION PRIOR TO IMPLEMENTATION MAY CHANGE FIGURES)

* Baseline model assumptions carry forward to models unless otherwise mentioned

Consolidated business case overview

Model 3 and 4 have similar savings, with Model 5 having largest investment required



Expected savings in relation to a calculated 11.6% baseline cost of distribution

35% savings
7.6% of net sale
$96.3M savings

34% savings
7.7% of net sales
$92.9M savings

26% savings
8.6% of net sales
$72.6M savings

Future state business case: FDS sales growth assumptions

Calculating the FDS sales annual increase up to FY28

- Based on the $8 B revenue projection for FY28, FDS sales is projected to reach $3.74 B in FY28 → **Revenue growth of 9.02% CAGR**
- **Volume growth is assumed at 6.84%** due to inflation of 2.18% contributing to revenue growth
- Distribution cost and benefit for each model is modeled based on **FY23 volume** and estimated **for FY28 based on volume growth**
- The benefit between FY23 and FY28 is assumed to have **linear growth**

Growth Assumptions

FY28 Goal	$8.00 B
Non-FDS Growth Initiatives	$0.53 B
FY Goal ex. non-FDS specific growth	$7.00 B
FY23 Budgeted Gross Sales - Total	$4.43 B
FY23 Actual Sales - FDS	$2.37 B
FDS as % of Total Gross Sales	53%
FY24 Projected YoY Growth (based on YTD units through P4)	11.8%
FDS Sales FY24 (Projected based YoY Growth)	$2.65 B
Projected FY28 FDS Sales	$3.74 B
Revenue CAGR	9.02%
Annual Inflation	2.18%
FY24 Case Volume (Projected based on YTD Actuals; no seasonality)	1,047,386,100
Physical Case Volume CAGR	6.84%
WACC	7.00%

Growth Projections

	FY23	FY24	FY25	FY26	FY27	FY28
FDS Gross Sales	$2.37 B	$2.65 B	$2.89 B	$3.15 B	$3.43 B	$3.74 B
FDS Case count	94,748,960	1,047,386,100	1,119,043,613	1,195,603,615	1,277,401,513	1,364,795,660

Future state business case: Warehousing, transportation, and distribution

Models 3, 4, and 5 provide the highest savings against DeCA's baseline operations

Input	Baseline Model	1: Single distributor per store	2: DeCA contracts distribution with existing Distributors	3: Wholesale Distribution Model**	4. Utilize speciality distributors for specific SKUs (2.5% of the volume)	5: AAFES*- all commodity types	6: Self-distribution
Transportation FTL (One Way)	$34.6 M	$28.1 M		$8.5 M	$16.3 M	$28.7 M	$32.7 M
Transportation – Ocean	$16.6 M	$13.6 M		$1.7 M	$1.7 M	$13.6 M	$13.6 M
Warehousing	$112.1 M	$112.0 M		$62.7 M	$64.6 M	$92.1 M	$92.1 M
Occupancy	$18.0 M	$15.8 M		$17.0 M	$12.8 M	$9.3 M	$18.6 M
G&A	$57.3 M	$49.0 M		$58.2 M	$58.0 M	$35.2 M	$43.6 M
All Other Operating Expenses	$27.1 M	$22.4 M		$20.9 M	$18.9 M	$13.8 M	$17.1 M
Non Operating - Inventory Holding Cost (Interest)	$9.8 M	$9.8 M		$9.8 M	$9.8 M	$9.8 M	$9.8 M
Additional Operating Expense			$0.6 M	$0.6 M	$0.6 M	$0.6 M	$0.6 M
Additional resources							$13.7 M
Maintenance of assets							$12.4 M
Total Cost of Distribution	**$275.4 M**	**$250.6 M**	**$217.4 M**	**$179.4 M**	**$182.7 M**	**$203.0 M**	**$254.2 M**
Savings against Baseline Model		**$24.8 M**	**$58.0 M**	**$96.0 M**	**$92.7 M**	**$72.4 M**	**$21.2 M**
Distribution Cost (% of Sales)	**11.6%**	10.6%	9.2%	7.6%	7.7%	8.6%	10.7%
Distribution Cost ($ per case)	$2.91	$2.64	$2.29	$1.89	$1.93	$2.14	$2.68
Reduction in Cost %		9.0%	21.1%	34.9%	33.7%	26.3%	7.7%

*AAFES would need to supply ambient, chilled, and frozen to ensure sufficient volume to make this financially feasible; original option 4 on engaging a 3PL was removed as it wasn't feasible or financially viable based on DeCA's needs.
**Exclusive of demand creation services

Future state models: Transportation spend analysis / sensitivity table

Change in FTL transportation Spend based on Cube per Case

Cube per Case	1 - Single distributor per store	2 - DeCA contracts distribution with existing distributors	3 - Wholesale Distribution Model	Baseline	4: Wholesale distribution model + specialty distributors	5 - AAFES – all commodity types	6 - Self-distribution
0.76	$26.1 M	$29.5 M	$7.7 M	$32.8 M	$37.9 M	$25.6 M	$29.2 M
0.608	$24.2 M	$28.2 M	$7.0 M	$31.3 M	$36.7 M	$23.2 M	$26.5 M
0.684	$25.2 M	$28.8 M	$7.4 M	$32.0 M	$37.2 M	$24.5 M	$27.9 M
0.836	$27.1 M	$30.2 M	$8.1 M	$33.6 M	$38.7 M	$27.0 M	$30.9 M
0.912	$28.1 M	$31.0 M	$8.5 M	$34.5 M	$39.5 M	$28.5 M	$32.5 M

Model 3: Wholesale distribution model

DeCA contracts with wholesale distributors directly. Contract as needed with suppliers (first costs)

Benefits

35%

Reduction in distribution cost

Medium Impact

Supply chain accountability

High Impact

Reduction in distribution costs

$326M

Net Present Value from FY25 to FY28

Required investment

Startup Costs

Capital costs
N/A

Operating costs
$0.1M

Solution

Summary capabilities & business strategy support

+ Leverage distributor's volumes with aligned product assortment and take advantage of Tier 1 bulk pricing discounts
+ Improve accountability for both cost control and product availability (assortment, delivery frequency impacts, distribution fees, etc.)
+ Reduce outbound operations supplier and brokers manage with distributors today
+ Business strategy support: monitoring load utilization aids in emissions tracking; consistent food waste surveillance can boost sales
- Limited ability to expand on product and assortment selections

Pre-requisites

+ Assortment: Increased staffing to support assortment alignment with distributors (one-time effort)
+ Sourcing: Increased staffing to support contract management with distributors (one-time effort)
+ Distribution: Resources required to run a should-cost analysis (one-time effort)

Technology

+ Inventory Planning: Increased data sharing; move from minimum to time phased replenishment

Financial implications

+ Suppliers no longer required to negotiate drayage/distribution fees with distributors. Could potentially unlock trade funds
+ Eliminates financial roll-ups with the suppliers
- Start-up administrative costs around establishing and negotiating contracts with distributors

Impact on E2E supply chain

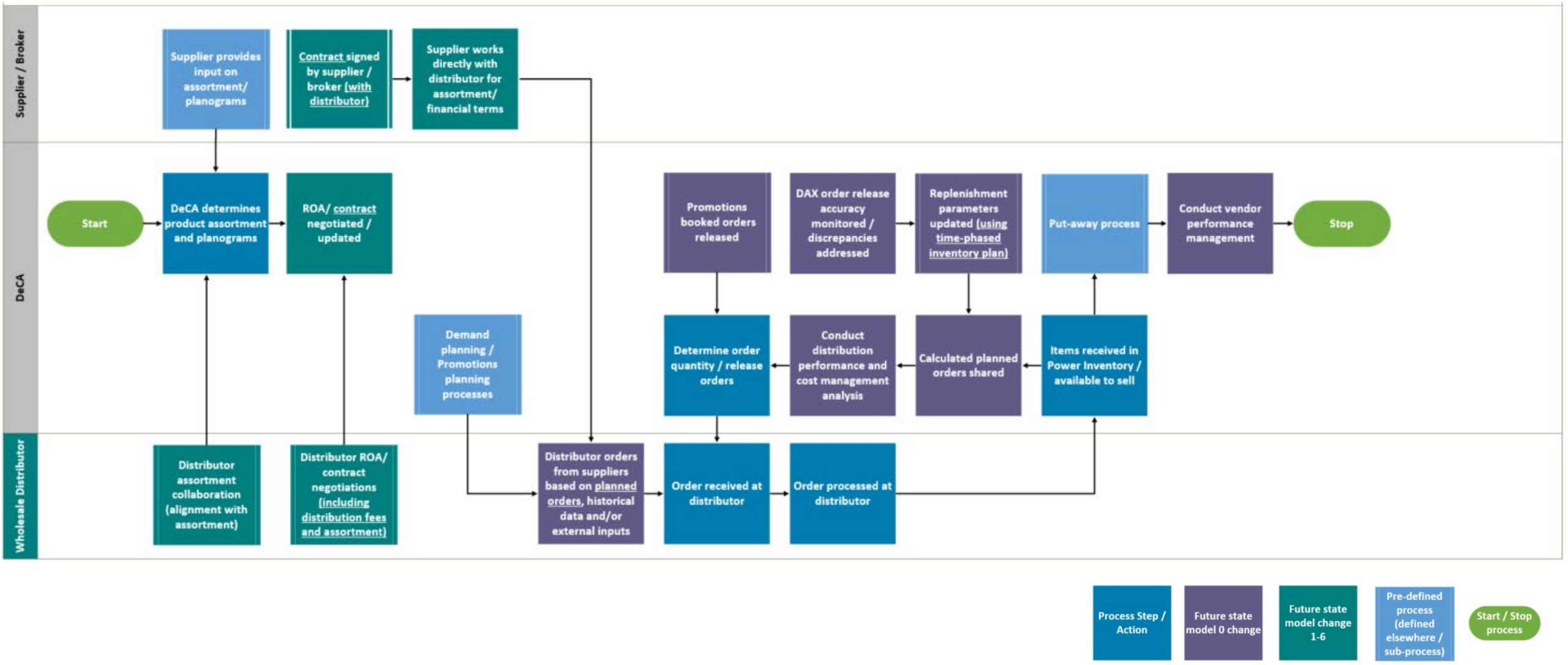
+ Total cost of distribution could decrease due to aligned portfolio and negotiated cost structure with the wholesale distributors
- Requires contract management and assortment process changes to implement

Implementation complexity

+ Resiliency - increased visibility and collaboration with distributors. Processes and assortment are aligned with commercial retailers. Distributors can leverage their current volumes to supply DeCA
- Increased implementation risk due to the process changes and start-up costs associated with this model

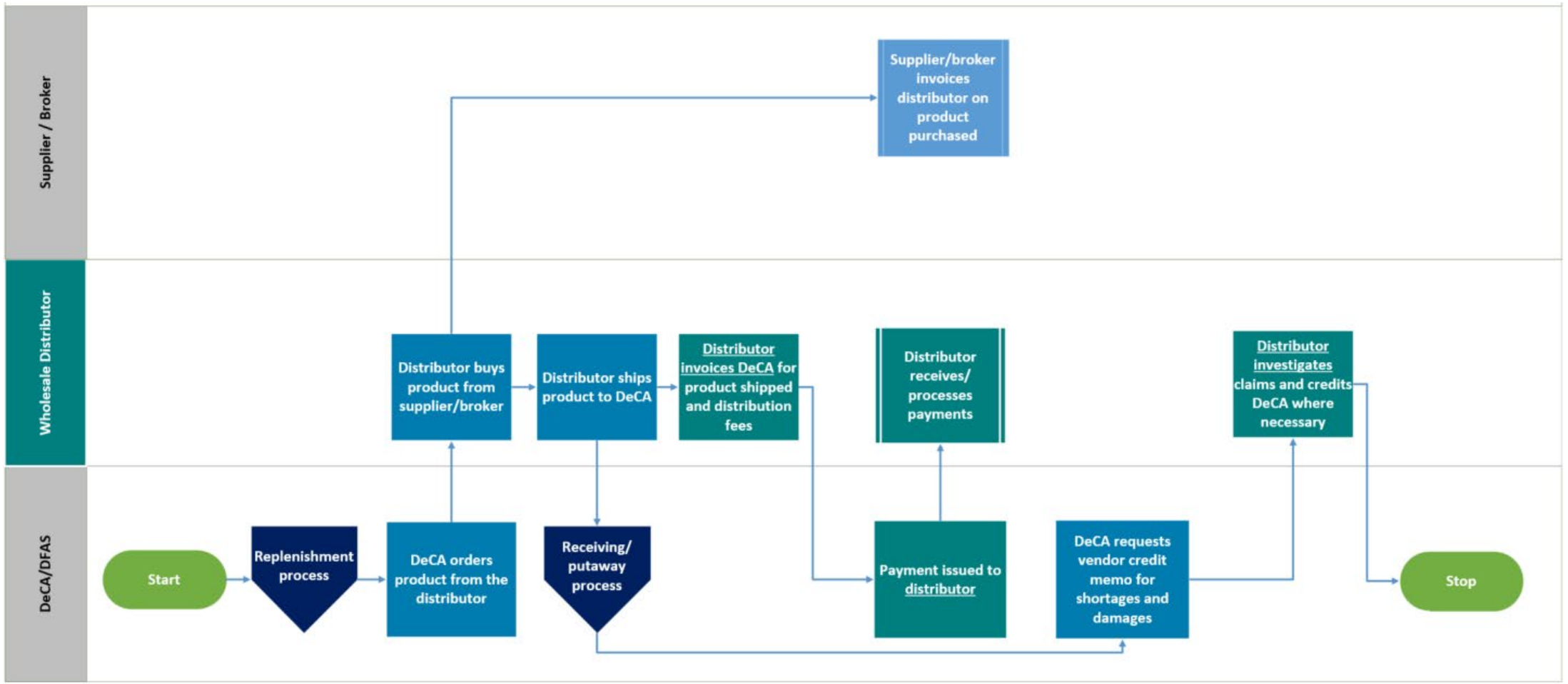
Future state Model 3: Wholesale distribution model

Contracting directly with wholesale distributors allows DeCA to utilize or negotiate distribution partners' assortment and pricing



Financial flow Model 3: Wholesale distribution model

Eliminates the need for financial roll-ups and provides more visibility into distribution costs by contracting with wholesalers directly

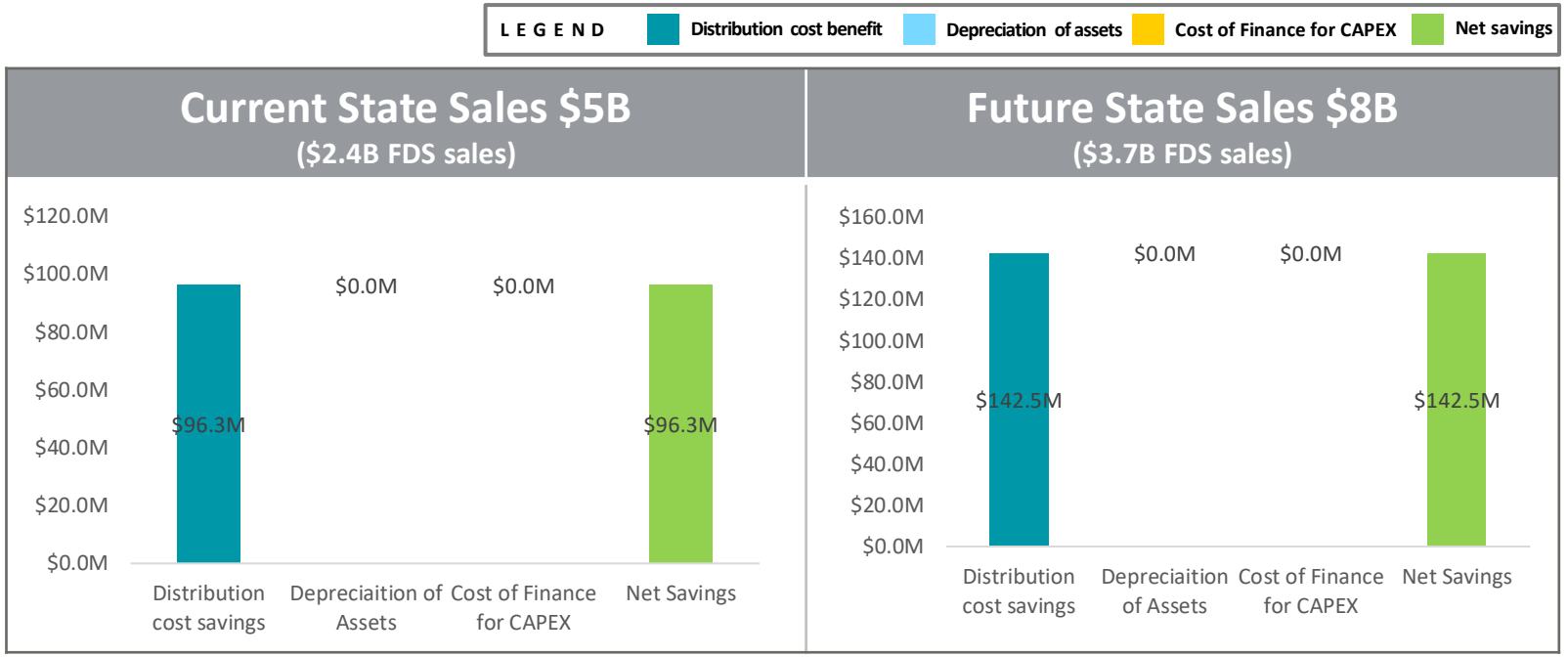


Business case Model 3: Wholesale distribution model

This model requires the least amount of initial investment and produces the greatest reduction in distribution cost

Key Metrics

Net present value (FY25 to FY28)	**$325.7M**
Payback Period	**1 year**
Capital costs (One-Time)	**-**
Operating costs (Resourcing)	**$0.6M**
Reduction in distribution cost (Recurring)	**$142.5M**



Sales	$2.4 B	$3.74 B
Capital costs (One-Time)	-	-
Capital costs for warehousing assets	-	-
Capital costs for transportation assets	-	-
Additional operating costs	-$0.7 M	-$0.6 M
Distribution cost savings	$96.3 M	$142.5 M

Notes/Assumptions:

- Each store will be served from nearest DC (including commercial DCs)
- All trucks will be shared FTL cost will not apply and rate per distance will be used
- Ocean Freight will not directly applied since it will be shared with other shipments
- The baseline model assumes adequate cost for supply chain operations. Five additional FTEs would be used to aid transition into new supply chain and direct contracting relationship

Model 3: Wholesale distribution model (Assumptions)

Category	Value
Warehouse efficiency	1
# of FTEs to manage contracts	5
Cost of FTE	$121,250
Operating costs - # of FTEs to build contract	2
Operating costs - duration (# of years) to build contract	0.5

Shipment Frequency (Annual average number of deliveries per store)	**Existing frequency (117 deliveries, average 2-3x per week per store)**	**36 (1x per week)**	**72 (2x per week)**	**108 (3x per week)**	**144 (4x per week)**	**180 (5x per week)**	**216 (6x per week)**
Transportation cost (RPD)	$30.9 M	$29.2 M	$29.9 M	$30.8 M	$31.9 M	$33.2 M	$34.6 M
Transportation cost (ocean)	$1.7 M	$1.7 M	$1.7 M	$1.7 M	$1.7 M	$1.7 M	$1.7 M

Additional assumptions:

- Each store will be served from nearest DC (including commercial DCs)
- All trucks will be shared → FTL cost will not apply and rate per distance will be used
- Ocean Freight will not be directly applied since it will be shared with other shipments. Calculate fuel surcharge only for ocean freight

1 – 36/108 used as example data points for sensitivity table

4: Wholesale distribution model + specialty distributors

DeCA contracts directly with a wholesale distributor for portion of goods and retains specialty distributors to handle unique items

Benefits

34%

Reduction in distribution cost

Medium Impact

Supply chain accountability

High Impact

Reduction in distribution costs

$277M

Net Present Value from FY25 to FY28

Required investment

Startup Costs

Capital costs
$48.5 M

Operating costs
$0.1M

Solution

Summary capabilities & business strategy support

+ Retains savings associated with wholesale model while providing additional avenues for specialty items
+ Improves accountability for both cost control and product availability (assortment, delivery frequency impacts, distribution fees, etc.)
+ Business strategy support: monitoring load utilization aids in emissions tracking; consistent food waste surveillance can boost sales
- Negotiations required across two distributors and results in two distributors for each store
- No guarantee of a 1:1 cost reduction; if implemented poorly, then overall costs could potentially increase

Pre-requisites

+ Assortment: Increased staffing to support assortment alignment and distributor selection process for specialty items (one-time effort)
+ Sourcing: Increased staffing to support contract management with distributors and planning decisions based on items moving to specialty distributors (one-time effort)
+ Distribution: Resources required to run a should-cost analysis (one-time effort)

Technology

+ Inventory Planning: Increased data sharing; move from minimum to time phased replenishment

Financial implications

+ Suppliers no longer required to negotiate drayage/distribution fees with distributors. Could potentially unlock trade funds
+ Eliminates financial roll-ups with the suppliers
- Start-up administrative costs around establishing and negotiating contracts with distributors

Impact on E2E supply chain

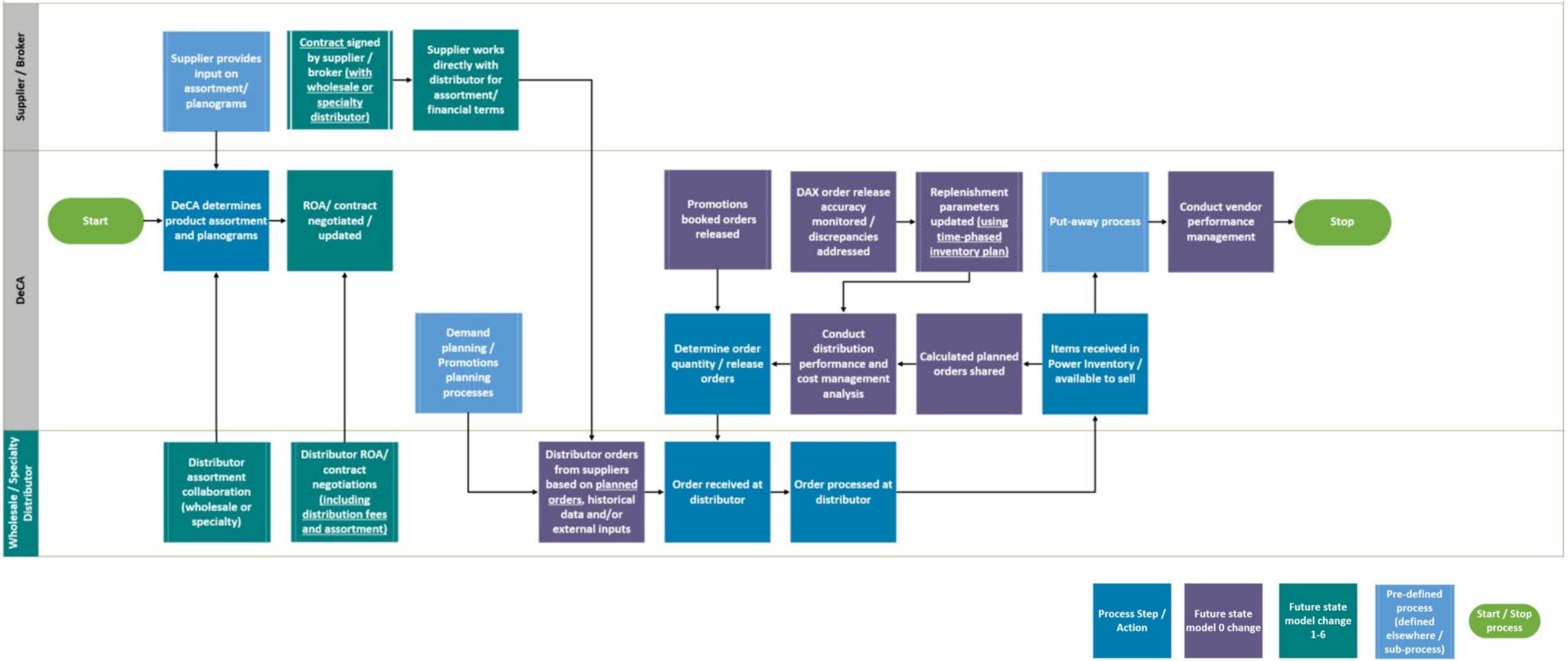
+ Total cost of distribution could decrease due to aligned portfolio and negotiated cost structure with the wholesale distributors
- Requires contract management and assortment process changes to implement

Implementation complexity

+ Resiliency - increased visibility and collaboration with distributors. Processes and assortment are aligned / negotiated with commercial retailers. Distributors can leverage their current volumes to supply DeCA
- Increased implementation risk due to the process / distribution changes and start-up costs associated with this model

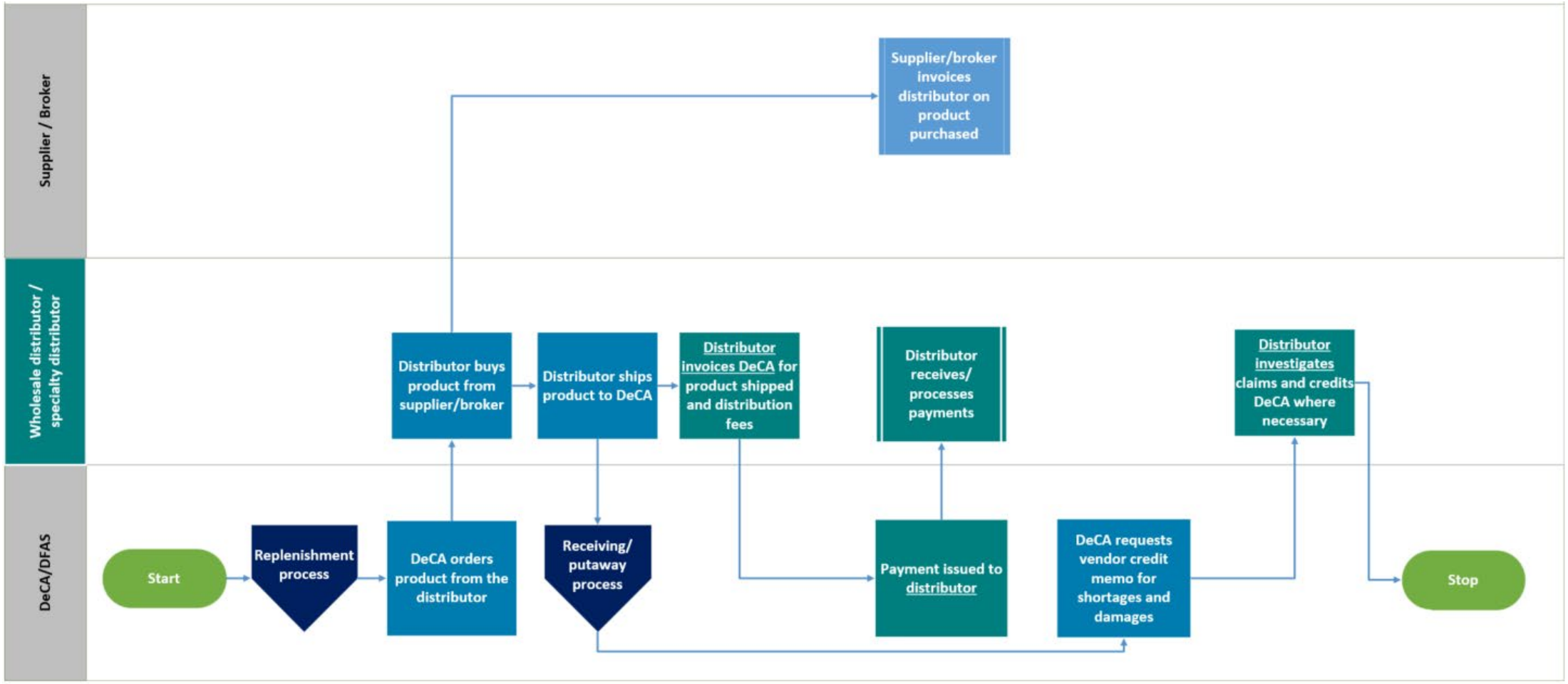
Future state Model 4: Wholesale distribution model + specialty distributors

Contracting directly with wholesale distributors allows DeCA to utilize or negotiate distribution partners' assortment and pricing



Financial flow Model 4: Wholesale distribution model + specialty distributors

Eliminates the need for financial roll-ups and provides more visibility into distribution costs by contracting with wholesalers directly

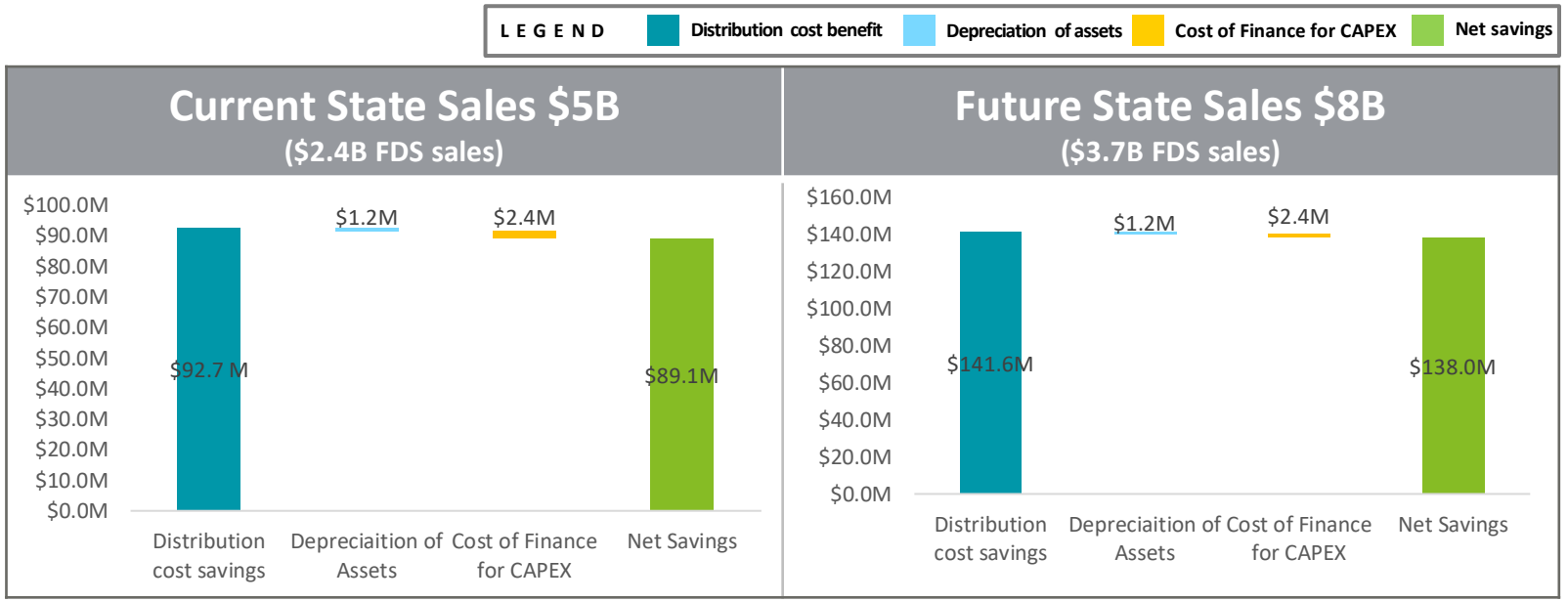


Business case Model 4: Wholesale distribution model + specialty distributors

Model has the benefits of wholesale distribution with the added flexibility from utilizing specialty distributors to maintain unique assortment

Key Metrics

Payback Period	**~2 year**
Capital costs (One-Time)	**$48.5 M**
Operating costs (Resourcing)	**-$0.6M**
Reduction in distribution cost (Recurring)	**$141.6M**



Sales	$2.4 B	$3.74 B
Capital costs (One-Time)	-$48.5M	-
Capital costs for warehousing assets	-$1.6M	-
Capital costs for transportation assets	-$46.9M	-
Additional operating costs	-$0.7M	-$0.6M
Distribution cost savings	$92.7M	$141.6M
Total depreciation	$3.6M	$3.6M
Surcharge for cost of Financing CAPEX	$2.4M	$2.4M
Straight line Depreciation of assets	$1.2 M	$1.2M
Net savings	$89.1 M	$138.0M

Notes/Assumptions:

- Each store will be served from nearest DC (including commercial DCs)
- All trucks will be shared FTL cost will not apply and rate per distance will be used
- Ocean Freight will not directly applied since it will be shared with other shipments
- The baseline model assumes adequate cost for supply chain operations. Five additional FTEs would be used to aid transition into new supply chain and direct contracting relationship

Model 4: Wholesale distribution model + specialty distributors

Category	Value
Warehouse efficiency	1
# of FTEs to manage contracts	5
Cost of FTE	$121,250
Operating costs - # of FTEs to build contract	2
Operating costs - duration (# of years) to build contract	0.5

Shipment Frequency (Annual average number of deliveries per store)	Existing frequency (117 deliveries, average 2-3x per week per store)	36 (1x per week)	72 (2x per week)	108 (3x per week)	144 (4x per week)	180 (5x per week)	216 (6x per week)
Transportation cost (RPD)	$30.9 M	$29.2 M	$29.9 M	$30.8 M	$31.9 M	$33.2 M	$34.6 M
Transportation cost (ocean)	$1.7 M	$1.7 M	$1.7 M	$1.7 M	$1.7 M	$1.7 M	$1.7 M

Additional assumptions:

- Each store will be served from nearest DC (including commercial DCs)
- All trucks will be shared → FTL cost will not apply and rate per distance will be used
- Ocean Freight will not be directly applied since it will be shared with other shipments. Calculate fuel surcharge only for ocean freight
- 2.5% of the total volume is allocated to specialty distributors

1 – 36/108 used as example data points for sensitivity table

Model 5: Utilize AAFES (all commodity types)

AAFES supplies DeCA commissaries with FDS items or special distributors for parts of business

Benefits

26%

Reduction in distribution cost

Medium Impact

Supply chain accountability

High Impact

Reduction in distribution costs

$22.4M

Net Present Value from FY25 to FY28

Required investment

Startup Costs

Capital costs

$242M

Operating costs

$0.1M

Solution

Summary capabilities & business strategy support

+ DeCA can leverage synergies of working with military partner including shared demand, existing distribution assets, and/or transportation lanes
+ Improve accountability for both cost control and product availability (assortment, delivery frequency impacts, distribution fees, etc.)
+ Business Strategy Support: Medium impact to increasing in-stock rates and sales growth
- DeCA/AAFES would be liable for inventory ownership and management

Pre-requisites

+ Sourcing: Increased staffing to support contract management changes, shifting from suppliers to distributors (one-time effort)
+ Sourcing: Increased staffing to support vendor performance management (ongoing effort)
+ Distribution: Resources required to run a should-cost analysis (one-time effort)

Technology

+ Inventory Planning: Increased data sharing; move from minimum to time phased replenishment

Financial implications

+ Could significantly decrease total cost of distribution resulting in an increase in trade dollars
+ Eliminates financial roll-ups with the suppliers
- Start-up costs associated with moving existing inventory to AAFES locations
- Start-up costs associated with AAFES acquiring frozen/chilled warehousing/transportation capabilities

Impact on E2E supply chain

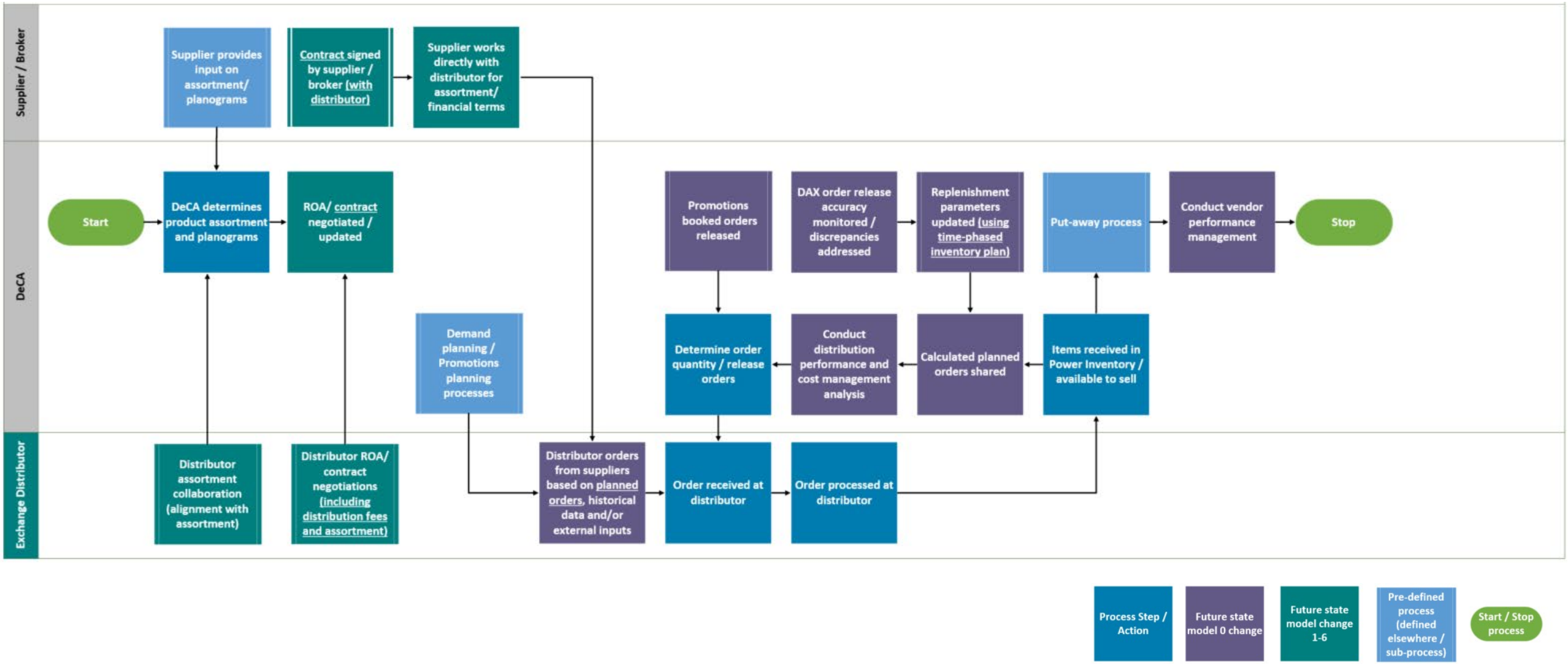
+ Increases visibility and control into total distribution costs
- Requires significant process changes to implement

Implementation complexity

+ Resiliency - partnership within the military sector facilitates collaboration and solutions to overcome supply chain challenges
- High implementation risk due to the process changes and start-up costs associated with this model

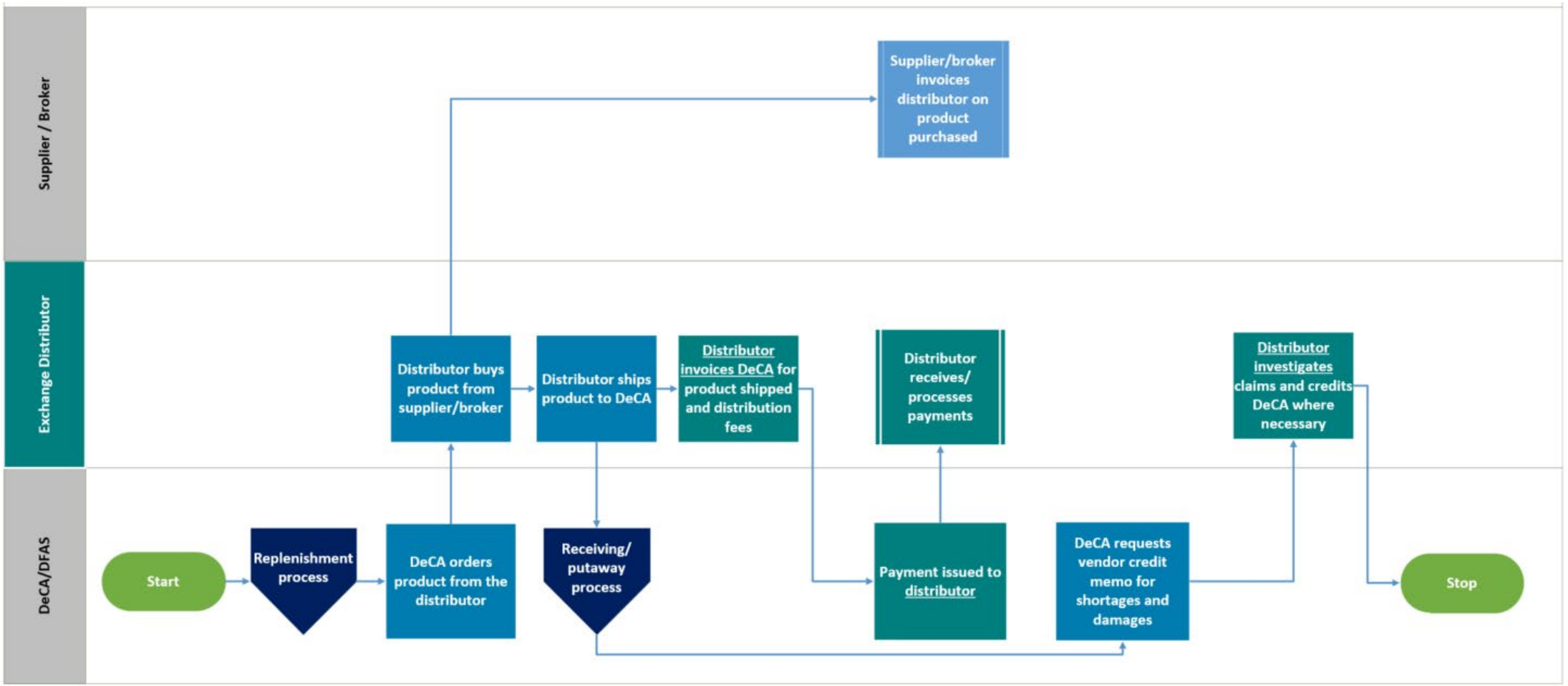
Future state Model 5: AAFES - all commodity types

Utilizing a military distributor offers the advantage of overlapping distribution and transportation methods resulting in reduced distribution costs



Financial flow Model 5: AAFES - all commodity types

Distributor contracts eliminates the need for financial roll-ups. Shifts from DeCA processing multiple invoices to one invoice (military distributor)

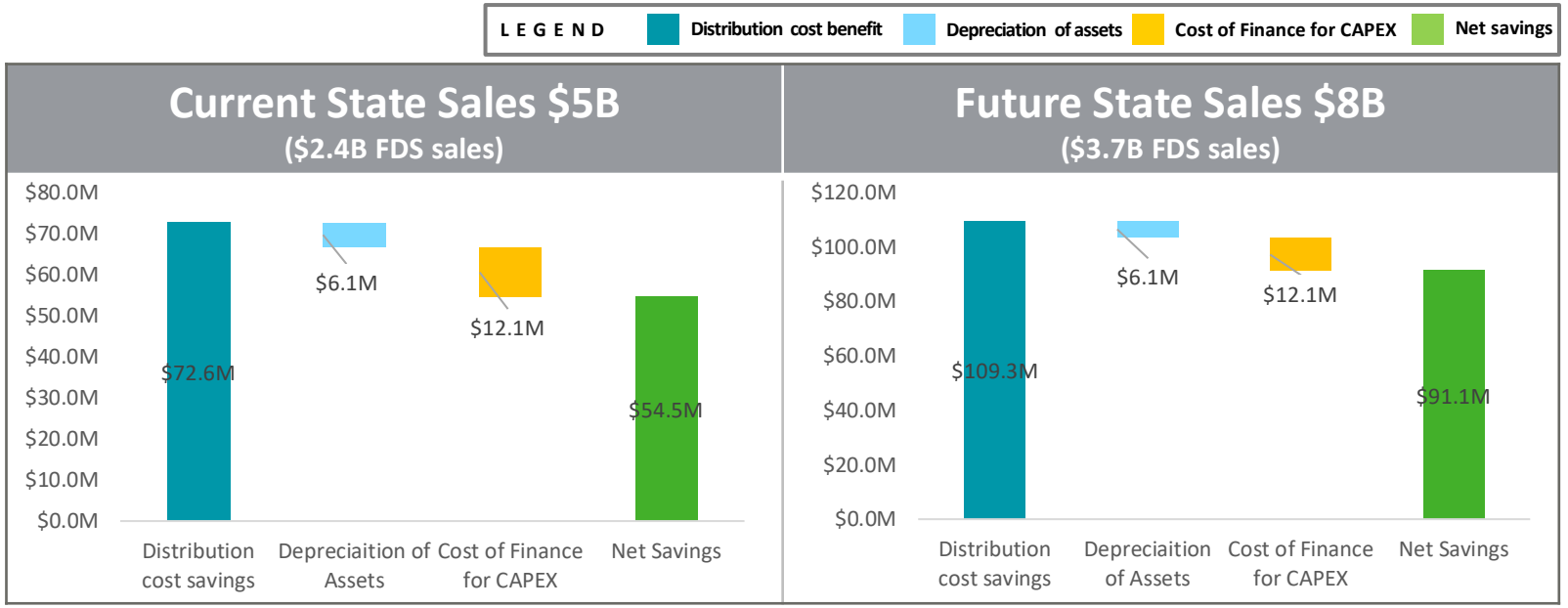


Business case Model 5: AAFES – all commodity types

This initiative necessitates a large initial investment and is projected to attain break-even status within three years.

Key Metrics

Payback Period	**~4 years**
Capital costs (One-Time)	**$242.3M**
Operating costs (Resourcing)	**-$0.6M**
Reduction in distribution cost (Recurring)	**$109.3M**



Sales	$2.4 B	$3.74 B
Capital costs (One-Time)	-$242.3M	-
Capital costs for warehousing assets	-$8.1M	-
Capital costs for transportation assets	-$234.3M	-
Additional Operating costs	-$0.7 M	-$0.6 M
Distribution cost savings	$72.4 M	$109.3 M
Total Depreciation	$18.2M	$18.2M
Surcharge for cost of Financing CAPEX	$12.1M	$12.1M
Straight line Depreciation of assets	$6.1 M	$6.1M
Net Savings	$54.5 M	$91.1M

Notes/Assumptions:

- Each store will be served from nearest DC (including commercial DCs)
- All trucks will be shared FTL cost will not apply and rate per distance will be used
- Ocean Freight will not directly applied since it will be shared with other shipments
- The baseline model assumes adequate cost for supply chain operations. Five additional FTEs would be used to aid transition into new supply chain and direct contracting relationship

Model 5: Proposed distribution map

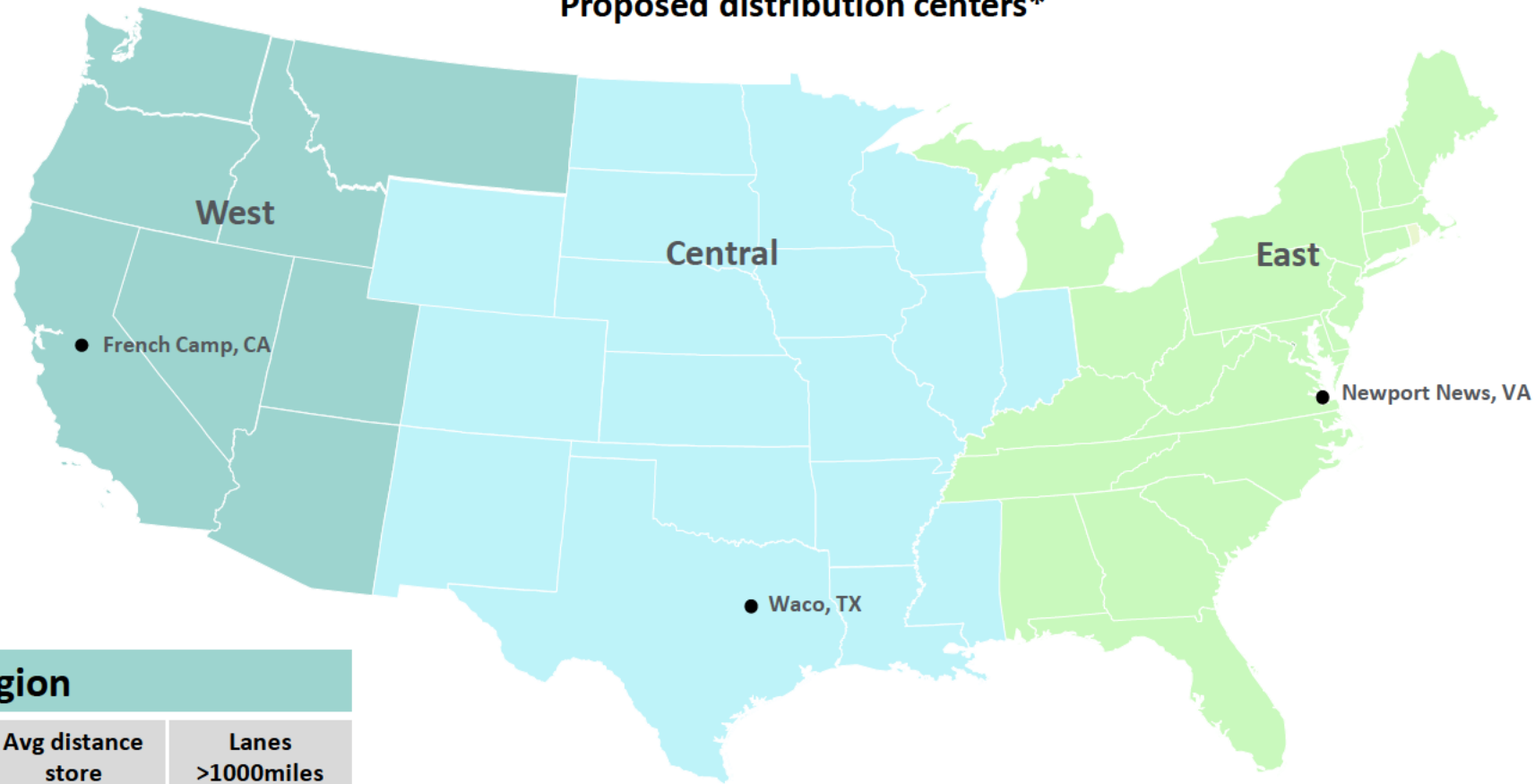
Top 10 States by Sales

State	Region	Total Sales
CA	West	$283.5 M
VA	East	$257.5 M
FL	East	$174.5 M
TX	Central	$145.4 M
WA	West	$131.1 M
HI	West	$128.7 M
GA	East	$114.2 M
NC	East	$112.2 M
MD	East	$101.1 M
CO	Central	$80.4 M

Distribution by region

Region	Annual Sales	Stores per DC	Avg distance store	Lanes >1000miles
West	$700 M	51	720	6
Central	$543 M	50	582	6
East	$1,086 M	77	454	1

Proposed distribution centers*



DISCLAIMER – FIGURES ARE ESTIMATES BASED ON LIMITED DATA SHARED DURING INTERVIEWS, INDUSTRY STANDARDS, AND ASSUMPTIONS (FURTHER VALIDATION PRIOR TO IMPLEMENTATION MAY CHANGE FIGURES)
* Based on AAFES distribution center locations, based on minimized transportation distance from DC to affected states/stores. (OCONUS: includes AK/HI, but excludes PAC/EU volumes)

Model 5: AAFES - all commodity types (Assumptions)

Category	Value
Warehouse inefficiency	1.46
% of Warehouse attributable to DeCA	50%
# of FTEs to manage contracts	5[1]
Cost of each FTE	$121,250[2]
Operating costs - # of FTEs to build contract	2
Operating costs - duration (# of years) to build contract	0.5

1 - 5 FTEs are needed to manage new contract with different distributors and manage distributors' SLAs / KPIs such as quality, delivery
2 - This was determined by utilizing the GS 12 Step 1 and Step 2 salaries as the basis and adding 25% to account for benefits