

Raising Expectations for

NHSLC

RFP Response | June 7, 2012



5) Cost Proposal

Exel is proposing an alternate commercial model.

Under this proposal Exel will operate the warehouse under a cost reimbursement commercial structure. The NHSLC sets the rates for suppliers, and keeps the difference. We believe this proposal has a number of exciting benefits for the Commission. This represents a new source of profitability. The NHSLC has the ability to adjust the rates it charges suppliers going forward to maximize its profitability. It eliminates the need for two pricing structures and for the Commission to determine which products to store in its own warehouse. As the Commission manages the pricing to suppliers, it has control over the impact of these prices on its overall profitability. The NHSLC has complete control and flexibility to add, remove, or alter the services it offers suppliers and customers. And, it is our experience that a cost reimbursement commercial structure results in lower costs for our customers.

A number of key concepts underpin how we employ a cost reimbursement commercial approach.

- Each year we will agree on the annual operating budget. It is through this process that the Commission will have flexibility and control over the services to be provided and the associated costs to deliver them.
- The management fee will be based on the budget. It will not vary regardless of whether actual expenses vary from the budget. This avoids the perception that Exel benefits from cost overruns.
- To ensure we have a strong incentive to reduce costs our management fee will be subject to an efficiency payment. Under this formula, Exel and the NHSLC will split variances in actual costs incurred versus the budgeted costs after adjustment for changes in volume and operating profile. The efficiency mechanism ensures we have a strong incentive to reduce costs and it is self-funding. In addition, as the budget is reset each year based on the prior years running rate, the Commission holds 100% of the benefit of cost reductions in perpetuity.
- There must be a balance between the incentives to reduce cost with the need to provide good service. Thus, we propose that in order to be eligible for any efficiency payment, Exel must achieve service KPIs. Examples of service KPIs that are normally part of our agreements include in inventory accuracy, fill-rate, order accuracy, and on-time.

- We will report our results on the appropriate frequency: daily, weekly, monthly, quarterly, and annually. These reports will include comparisons to budget and prior periods and explanations of variances both positive and negative. In addition, we will provide regular forecasts and collaboratively determine any required actions. This type of close communication will provide you with predictability in costs, and a thorough understanding of what is happening in the business. It also encourages a collaborative approach to achieving the desired outcomes.
- As the NHSLC reimburses costs incurred on its behalf, you will have full visibility to all of the costs.

Notes:

We completed the spreadsheets for Appendix D to facilitate the evaluation of our proposal. There only one appendix, i.e. we are not submitting D and D-1. Our alternate commercial model assumes the NHSLC establishes the prices it wishes to charge suppliers. It does not make sense that the Commission would charge itself for handling its own products.

The pricing in our Appendix D is based on the expected costs across the first three years of the contract including our management fee based on our assumptions as to the profile of the work. These assumptions are outlined in our Concept of Operations. In addition to the pricing template we also included a first year budget. Under our proposed commercial model this budget once refined and finalized in collaboration with the Commission would be goal Exel's performance would be measured against.

Please note that through the NHSLC sets the prices in this commercial model for suppliers, Exel can still collect the funds on behalf of the Commission.

We did review a two warehouse option. The one warehouse option was a lower cost and did not complete any further work on a two warehouse option.

In Appendix C, section VII, 10, the NHSLC is suggesting liquidated damages in the case of late loading of products. We would suggest this commercial model where the efficiency payment is forfeited if service levels are not met is a better method of incenting the correct behavior by the provider.

→ **Appendix D**

Please see worksheet



→ **Appendix D-1**

Not completed as discussed above

New Hampshire CM Laser Truck 05 30 12 FINAL FIRST YEAR BUDGET (000s)

LABOR & FRINGE EXPENSE

Direct Labor

Fixed Wages	0.0
Variable Wages	1,566.8
Seasonal Wages	0.0
Fixed Fringe & Tax	0.0
Variable Fringe & Tax	615.4
Seasonal Fringe & Tax	0.0
Contract Labor (WTMisc)	219.0

Clerical Labor

Fixed Wages	349.8
Variable Wages	0.0
Seasonal Wages	0.0
Fixed Fringe & Tax	132.5
Variable Fringe & Tax	0.0
Seasonal Fringe & Tax	0.0

Salaried Labor

Fixed Wages	557.9
Variable Wages	0.0
Seasonal Wages	0.0
Fixed Fringe & Tax	206.4
Variable Fringe & Tax	0.0
Seasonal Fringe & Tax	0.0

TOTAL LABOR & FRINGE EXPENSE 3,647.7

RAMP-UP

Direct Labor Year 1	267.9
Clerical Labor Year 1	23.7
Salaried Labor Year 1	0.0
Equipment Year 1	2.7
Amortized Rampup	0.0

TOTAL RAMP-UP 294.3

FACILITY EXPENSE

Rent	675.0
Utilities	90.0
Building Services	45.3
Bldg Maint & Repairs	240.0
Security	4.5
Building Insurance	0.0
Depreciation	16.3
Real Estate Taxes	0.0
Seasonal Space	0.0

TOTAL FACILITY EXPENSE 1,071.1

New Hampshire CM Laser Truck 05 30 12 FINAL FIRST YEAR BUDGET (000s)

EQUIPMENT EXPENSE	
Rent	125.9
Other Handling Equipment	0.0
Temporary Rental Expense	0.0
Fuel	13.7
Fuel excess of peg	
Maintenance & Repairs	41.7
Licenses & Registration	1.8
Insurances	7.2
Depreciation	339.2
Fuel Tax	

TOTAL EQUIPMENT EXPENSE 529.5

OPERATIONAL SUPPLY EXPENSE	
Pallets	169.0
Shipping Supplies	133.3
Packaging Supplies	0.0
Warehouse Supplies	23.4
Driver/Safety Supplies	8.2
Maintenance Supplies	3.9
Office Supplies	33.0
Computer Supplies	44.0

TOTAL OPERATIONAL SUPPLY EXP 414.8

OPERATIONAL ADMIN EXPENSE	
Freight	0.0
Acct Mgmt/Contractors	0.0
Claims	100.0
Telephone	24.0
Office Equipment	5.6
MIS Charges	405.2
Uniforms	0.0
Training & Seminars	15.2
Travel	0.0
Associate Relations	19.5
Professional Fees	0.0
Start-up Costs	25.5
Tickets, Fines, & Citations	0.0
Tolls	
General Insurance	177.5
Miscellaneous	49.3
Depreciation	306.7
Taxes	106.9
Redundancy	0.0
Payroll Processing	9.1
Dues/Subscrip/Contr	0.0
Allocated Expenses	29.2

TOTAL ADMINISTRATIVE EXPENSE 1,273.5

New Hampshire CM Laser Truck 05 30 12 FINAL FIRST YEAR BUDGET (000s)

TOTAL OPERATIONAL EXPENSES 7,230.94

INTERNAL INTEREST

Int on Fac Assets	
Int on Equip Assets	124.3
Int on Admin Assets	6.0
Int on Property Refurb	6.5
Int on IT	80.0
Int on Start-up/Rampup	43.9
Interest on A / R	55.5
Interest on FUM	

TOTAL INTERNAL INTEREST 316.2

MANAGEMENT FEE 838.6

TOTAL EXPENSES 8,385.7

BASIC BAILMENT CHARGES:

INBOUND HANDLING:

Covers the ordinary labor and duties incident to the unitized (slipsheet, pallet, or clamp) unloading of cases; verifying case quantities against a proper packing slip and carrier bill of lading; placing into storage, administrative receiving. Handling is charged upon receipt of goods and calculated on a “per code per receipt” basis.

Codes of 1 – 180 cases	NA
Codes of 181 – 299 cases	NA
Codes of 300 – 669 cases	NA
Codes of 670+	NA
Pallet packs	\$ 7.40 per Pallet

INBOUND CASE - NEW PROPOSED

Cases received uncoded or other <u>unsaleable</u> status	\$ 5.50 per line item surcharge
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STORAGE:

Storage is calculated on an anniversary basis and initially charged upon receipt. For each 14-calendar day from date of receipt, the number of cases in storage is charged according to the table below on a “per code per receipt” basis.

Cases in inventory	1 - 84 days from receipt	\$ 0.09 per case per 14 days
Cases in inventory	85 -182 days from receipt	\$ 0.25 per case per 14 days
Cases in inventory	183 - 365 days from receipt	\$ 0.65 per case per 14 days
Cases in inventory	366+ days from receipt	\$ 1.15 per case per 14 days

Allocated inventory	1 - 84 days from receipt	\$ 0.09 per case per 14 days
Allocated inventory	85+ days from receipt	\$ 0.25 per case per 14 days

(Special Rates apply to selected wines only)

Definition of Allocated Inventory - wines that are generally available in small quantities and may be in high demand by consumers. Allocated wines must meet certain criteria to qualify for the program and as an incentive for suppliers to allocate these highly sought after wines a special reduced storage rate is offered.

Any case, 0-365 days, on an unsaleable status:	\$ 0.65 per case per 14 days
Any case, 366+ days, on an unsaleable status:	\$ 1.15 per case per 14 days

Pallet packs in inventory	1 – 84 days from receipt	\$ 4.25 per pallet per 14 days
Pallet packs in inventory	85 - 182 days from receipt	\$ 11.00 per pallet per 14 days
Pallet packs in inventory	183 - 365 days from receipt	\$ 30.00 per pallet per 14 days
Pallet packs in inventory	365 + days from receipt	\$ 52.00 per pallet per 14 days

Pallet pack, 0-365 days, on an unsaleable status:	\$ 30.00 per pallet per 14 days
Pallet pack, 366+ days, on an unsaleable status:	\$ 52.00 per pallet per 14 days

Note: To qualify for this rate the pallet is considered to be one unit. (Received as one unit and shipped out as received in)

Refrigerated Storage	\$	0.32	per case per 14 days
	\$	15.84	Per pallet per 14 days

<u>OUTBOUND HANDLING - NEW PROPOSED</u>	\$	0.81	per case
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OUTBOUND ORDER PROCESSING/REPORTING:

Consists of creating a packing slip, permanent adhesive labels for each in-state liquor store and licensee shipment, electronic shipping orders provided daily to suppliers summarizing the quantities of each product shipped.

Normal order processing:	\$	0.13	per case
Manual Non-Auto Orders:	\$	0.20	per case/\$25.00 Min

ACCESSORIAL SERVICE CHARGES:

ADVERTISING MATERIAL

Handling (small/large)	\$0.72/1.94	per carton
Storage (small/large):	\$0.50/3.50	per carton/per month

BLANKETS

Handling:	\$	24.75	per blanked
Storage:	\$	6.50	per blanket/per month

EXTRA WAREHOUSE LABOR

Labor used for handling services not included in the normal processing of a receipt or shipment, nor listed separately	<u>Regular Time</u>	\$	34.65	per person/per hour
	<u>Overtime</u>	\$	52.00	per person/per hour
	<u>Sunday/Holiday</u>	\$	63.00	per person/per hour

EXTRA WAREHOUSE LABOR & EQUIPMENT

(must be pre-approved)

Labor and equipment used for handling services not included in the normal processing of a receipt or shipment, nor listed separately below	<u>Regular Time</u>	\$	66.00	per person/per hour
	<u>Overtime</u>	\$	81.00	per person/per hour
	<u>Sunday/Holiday</u>	\$	91.00	per person/per hour

OFFICE SERVICE CHARGE (must be pre-approved)

Labor used for office services and other unusual office or data information services not included in the normal administration of receipts, shipments, or inventory.	<u>Regular Time</u>	\$	34.65	per person/per hour
	<u>Overtime</u>	\$	52.00	per person/per hour
	<u>Sunday/Holiday</u>	\$	63.00	per person/per hour

ANNUAL PHYSICAL INVENTORY

<u>Regular Time</u>	\$	34.65	per person/per hour
	\$	0.14	per case
	\$	0.09	per bottle

SPECIAL REQUEST DOCUMENTATION RUNS

For the printing and forwarding of reports and/or invoices available electronically	\$	25.00	per run
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FACSIMILE CHARGE

\$ 0.90 per page

DESTRUCTION OF INVENTORY

Rate subject to change based on

\$ 3.80 per case (0-55)

disposal fees and transportation costs.

\$ 3.00 per case (56+)

LABELING:

Labor and materials used to apply SLC code labels to uncoded cases.

<56 cases per code \$ 2.50

56-99 cases per code \$ 2.00

100-299 cases per coc \$ 1.25

300+ cases per code \$ 0.75

Minimum per code \$ 13.50

RELABELING:

Labor and materials used to apply

\$ 1.10 per case

SLC code labels to coded cases.

\$ 15.00 min

MISSED APPOINTMENTS:

Charged after the third missed appointment in a rolling 12-mo period

\$ 250.00 per appointment

PALLET CHARGE

\$ 10.80 per pallet