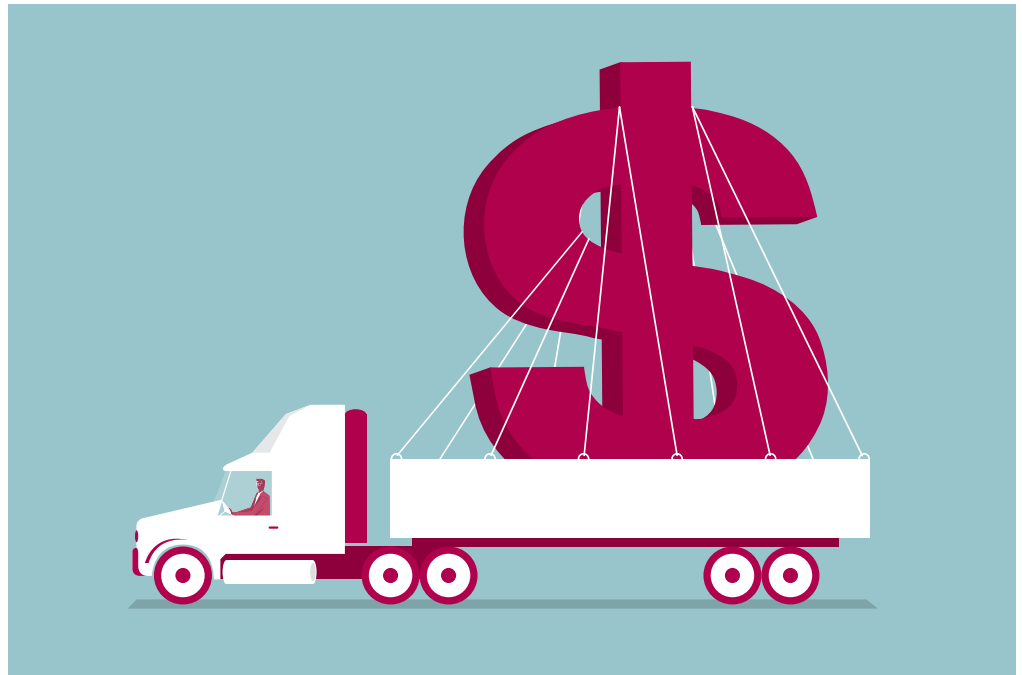




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WHITE PAPER



Finding Gold in Logistics

How an External Logistics Expert Can Help Accounting and PE Firms Improve the Business Performance of Clients and Portfolio Companies

By David Klugman and Joseph Brady

Accounting and private equity firms are clearly different types of businesses. Yet they face a common challenge: the need to align with a growing stable of external experts that can augment their core capabilities. For accounting firms, external experts can help CPAs become a true trusted business advisor who can solve a broader set of business problems—and, thus, become more attractive to existing and prospective clients. For PE firms, outside help can be instrumental in boosting the financial value of portfolio companies to get a greater return when those companies are sold. In both cases, an external logistics expert can be an important partner, helping to significantly improve the performance of a company's logistics function and its contribution to the bottom line.

The Growing Importance of External Experts

Competition is a fact of life in every industry—accounting and private equity are no exception. But dealing with an increasingly competitive environment is not easy.

With their main compliance offerings effectively becoming commodities, accounting firms find they must offer other services—in essence, assuming the role as broader business advisors—to differentiate themselves and become more valuable to their clients. PE firms, now facing much greater competition—and, by extension, higher prices—for acquisitions, must take a more active role in their portfolio companies to make them significantly bigger and more profitable than they were before the firm bought them. The goal, of course, is to maximize their selling price.

Success in both instances requires addressing challenges outside their traditional core areas of expertise. And that's why many accounting and PE firms are increasingly looking to external experts to augment in-house skills and knowledge.

Leveraging outside help enables accounting firms to solve their differentiation conundrum and boost their value. This helps both retain existing customers and attract new ones.

Take the case of client retention. “When we introduce external experts to our existing clients, clients see us as broader and better, and we are more credible when we talk to the client about the next issue,” said Larry Davenport, retired partner at Ernst & Young and CPA firm Davenport, Hanf & Company. “I think it very much helps our breadth as a valued service provider.”

It also can be a smart defensive move for accounting professionals. “I know enough to ask my clients the right questions to identify opportunities to improve their business,” noted Jon Shoop, a principal at Skoda Minotti. “But if I don't find a way to act on those opportunities—provide them a solution—I might be supplanted as their business advisor.”

Teaming up with an external expert also can help an accounting firm gain an entrée into potential new clients the firm is courting. Demonstrating a broader capability base with a solution to a particular business problem—that may have nothing to do with accounting—can be just the push the prospect needs to sign on the dotted line. Doing so can be especially helpful for midsize accounting firms competing with larger firms that offer more services in-house. By assembling a suite of different external services they don't directly provide but can bring to the table when a company needs them, midsize firms can position themselves as a more viable and credible alternative to larger firms.

As a bonus, bringing in external problem solvers also can make clients less likely to demand lower fees for core compliance work. “When a client knows we just saved them a lot of money in one area, and knows we might save them more money in another area, they're less likely to be intent on pressing us to reduce our compliance fees,” observed Davenport.

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—Larry Davenport
Davenport, Hanf & Company

We are cognizant of the fact that we have to focus our efforts on building the value of our businesses internally, intrinsically, and not hope that we're simply going to be a smarter seller than the last guy who sold that business.

—Jim Marra
Blue Point Capital Partners

For private equity firms, an external expert can positively influence the metrics PE firms care about most: their portfolio companies' business valuation, internal rate of return, and exit value. In other words, an external expert can play a big role in helping a PE firm financially shape up an acquisition so that when the firm is ready to sell the company, it gets top dollar.

"We are cognizant of the fact that we have to focus our efforts on building the value of our businesses internally, intrinsically, and not hope that we're simply going to be a smarter seller than the last guy who sold that business," said Jim Marra, director of business development at Blue Point Capital Partners. "So when looking at external experts, we constantly ask, 'What resources can we bring to these portfolio companies that'll make them more valuable?'"

Substantial Opportunities for Improvement in Logistics

One type of external expertise accounting and PE firms increasingly need is logistics. Logistics represents a goldmine of opportunities to help companies save money as well as enhance customer service. Improvements in both areas can go a long way toward boosting a company's operational and financial health. But many companies typically overlook logistics as a potential source of value, or in some cases, simply fail to maximize the function's contribution to the larger enterprise.

Transportation is a particularly rich target. A well-run transportation function is vital to providing superior customer service—ensuring customers get the right product at the right time at the right cost, in the right condition. It's also a high-ticket item: Transportation costs broadly and freight costs specifically comprise a huge proportion of overall logistics costs.

Simplified Logistics helps small and midsize manufacturers and distributors reduce freight costs and improve freight-related process efficiency with minimal risk and no up-front investment.

Simplified Logistics is uniquely positioned to help accounting and PE firms find this hidden value in their clients' and portfolio companies' logistics operations. Through a combination of consulting and technology, Simplified Logistics helps midsize manufacturers and distributors reduce freight costs and improve freight-related process efficiency with minimal risk and no up-front investment—thus, positively influencing business valuation, EBITDA and cash flow.

At the heart of Simplified Logistics' approach is freight. Simplified Logistics can typically substantially reduce a company's annual freight costs just by assuming responsibility for the company's freight purchasing, processing, payment and auditing. Simplified Logistics keeps a small portion of those savings, which enables Simplified Logistics to generate other benefits for companies through technology, process improvements, and reporting at no additional cost and without charging brokerage fees. Such services, which ordinarily would require further investment from companies, are built into Simplified Logistics' solution.

To determine if Simplified Logistics can help a company—and to quantify the size of the impact—Simplified Logistics conducts an initial no-cost diagnostic of the company’s freight-related operations. This diagnostic uncovers the potential pure cost-reduction opportunities as well as possible process improvements that could boost the transportation function’s efficiency and productivity. It’s essentially a free “health check” that shows a company how well its freight operations are performing—with no financial or contractual commitment required.

Key Areas Explored by Simplified Logistics’ No-Cost Diagnostic

- ✓ Transportation cost reductions across LTL and TL shipping
- ✓ Service level improvements
- ✓ Freight as a profit center
- ✓ Freight recovery
- ✓ Unbundling the true cost of inbound transportation
- ✓ Administrative costs associated with freight audit and payables
- ✓ Technology upgrades and improvements
- ✓ Metrics and access to best case practices across hundreds of shippers

Three Categories of Benefits

This assessment typically uncovers numerous ways to improve a company’s performance—whether it’s an accounting firm’s client or a PE firm’s portfolio company. Most companies experience improvements across three broad categories.

Lower freight costs

First and foremost, when Simplified Logistics assumes responsibility for freight purchasing, companies save money on freight without jeopardizing service levels. On average, companies pay 12 percent to 26 percent less on freight because of Simplified Logistics’ ability to negotiate the best possible LTL and truckload carrier rates. In addition, companies enjoy lower administrative costs associated with auditing, processing, paying, and reporting on freight invoices. When done internally, these activities typically cost a company on average between \$15 and \$50 per transaction. With its automated transaction processing, Simplified Logistics can do it for much less—around \$1 per transaction.

On average, Simplified Logistics’ customers pay 12 percent to 26 percent less on freight.

Such savings can have a major impact on a company’s profitability and EBITDA. And if that company is part of a PE firm’s portfolio, that means significantly greater value for that asset. Consider a portfolio company that a PE firm hopes to someday sell at eight times EBITDA. If the company can improve its EBITDA by \$200,000 annually by virtue of smarter freight purchasing and associated process improvements, it adds \$1.6 million to its value when it sells. Add in debt reduction that gets distributed to that cash flow stream of \$200,000 pre-tax, and the total value rises to \$2 million. “That’s a meaningful number,” Marra noted.

Increased freight recovery and freight as a profit center

Any company that spends money on transportation incurs freight expenses if it doesn't ship everything collect. Companies can and should recover that freight expense.

Here's an extreme example: An infomercial typically sells a product for \$19.99, but offers a special two-for-\$19.99 deal. The customer simply pays a separate shipping and handling fee of \$15. With that \$15, the company not only recovers its \$5 freight cost, but also generates its actual margin on the product with the remaining \$10. One Simplified Logistics customer recovered 50 percent of its freight expense five years ago, and that since has climbed to about 83 percent today. Some customers—big ones that get very good rates—are recovering 150 percent to 160 percent of their actual transportation costs.

The benefit from bringing in Simplified Logistics to our clients is we're providing them a solution that helps build and strengthen their business, streamline processes, reduce costs, and improve margins.

—Jon Shoop
Skoda Minotti

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The key is Simplified Logistics' low carrier rates, which enable a shipper to mark up freight 30 percent to 40 percent and still have shipping cost less than if a buyer paid for it directly from the carrier. That difference gives smart shippers an opportunity to actually make money on transportation.

Higher productivity and reduced operational complexity

Many freight-related processes are rife with complexity, often because they're done manually. The tendering process is a good example. In many companies, tendering shipments requires an employee to spend many hours calling carriers to arrange shipments. This is repeated hundreds of times a week in a typical midsize company. Simplified Logistics automates the tendering process so a shipper can communicate electronically with carriers to tender shipments and, thus, reduce time and cost while improving efficiency and accuracy.

With access to more powerful tools and streamlined processes, transportation employees can become more efficient and productive. Sometimes, companies can even completely redeploy people to other, higher-value roles and save further money in the process.

The point is, while reduced freight costs are at the core of Simplified Logistics' approach, it's just the start. "The benefit from bringing in Simplified Logistics to our clients is we're providing them a solution that helps build and strengthen their business, streamline processes, reduce costs, and improve margins," said Shoop. "There's a bottom-line impact, and every company is happy with improved profits and reduced cost. If along the way it can make their people not have to worry about a certain aspect of their job and focus their time on other more valuable things, that's a double benefit."

An added plus for PE firms is that Simplified Logistics' approach enables a firm to create operating leverage, standardization, and centralization of information across its portfolio companies without having to tie the systems of those companies together. And that's possible even if the conditions are very different for each company. In one, Simplified Logistics' software tools might be tightly integrated with the company's ERP system, while in another Simplified Logistics could be interfacing with a completely manual process. But at a high level, the goal is the same: to give a PE firm insights on what the freight buy is in each company, how much Simplified Logistics can save each, and where certain companies' subpar practices are leaving money on the table—representing millions of dollars in valuation on the back end.

Some instances in which Simplified Logistics can add significant value:

- ✓ Need for quick and sustainable cost reductions, service improvements or margin expansion due to competition
- ✓ Changes in go-to-market and transportation strategy
- ✓ Period of rapid growth
- ✓ Need for better performance from existing logistics talent

When is the right time for an accounting or PE firm to consider calling on Simplified Logistics? There are myriad scenarios. Some of the situations in which Simplified Logistics could add the greatest value include when the competitive landscape requires a company to make quick and sustainable cost reductions, service improvements or margin expansion; when a company changes its go-to-market and transportation strategy; when it expects or experiences rapid growth; or when it needs to get better performance from existing internal logistics talent. In all of these cases, Simplified Logistics can help companies achieve their operational and financial objectives.

Case Study: Betco

Simplified Logistics can have a significant, measurable impact on most companies' bottom lines. For example, in the past several years, companies that Larry Davenport of Davenport, Hanf & Company has referred to Simplified Logistics have cumulatively saved upwards of \$15 million annually in direct logistics spend. That's in addition to numerous performance improvements and productivity gains that Simplified Logistics helped drive. One such company is Ohio-based Betco, a family-owned, 65-year-old manufacturer of a wide range of cleaning fluids, which Davenport introduced to Simplified Logistics in 2008.

Betco is in a highly competitive industry, one in which the main products—including glass, floor, and toilet bowl cleaners—consist of liquid, which makes them very heavy and expensive to ship. Thus, freight and shipping terms and conditions are very significant factors in pricing products and, by extension, have a significant impact on Betco's overall profitability.

At Davenport's suggestion, Betco CFO Tony Lyons agreed to meet with Simplified Logistics to hear how the company could help. Simplified Logistics' no-cost assessment revealed opportunities to save Betco a significant amount of money—starting with helping Betco manage its freight more effectively and streamlining



Company: Betco

Principal Products: Cleaning materials for industrial, commercial and insitutional use.

Major Challenge: Effectively managing costs to ship very heavy products to maintain profitability.

Simplified Logistics' Role: Responsibility for freight purchasing, and for processing and verifying freight bills.

Principal Benefits: Reduced freight rates, lower freight bill processing costs, and visibility into exact freight cost on each customer invoice.

accounts payable for freight invoices. "I have so many shipments a day—including as many as 50 LTLs—that I had half a person doing nothing but processing and verifying freight bills," Lyons recalled.

After seeing the results of the assessment and several conversations, Lyons decided to embrace Simplified Logistics' approach. "They had to convince me and four other people that they had the capability to do what they said they could do," said Lyons. "Ultimately, we were comfortable moving forward with them because the savings they said they could deliver were significant enough to get our attention, and everything that my purchasing and logistics people heard satisfied their needs."

Simplified Logistics quickly assumed responsibility for freight purchasing for all of Betco's LTL shipping. With its purchasing power among hundreds of carriers, Simplified Logistics was able to cut Betco's LTL rates considerably. Simplified Logistics also took over processing and verifying Betco's freight bills, which had an immediate and lasting impact on those activities.

"Simplified Logistics gives us a data file that we enter into our ERP system, and then we process a single payment to Simplified Logistics," explained Lyons. "This has dramatically reduced the cost associated with processing accounts payable for freight. We also get data that allows us to connect our freight bills that Simplified Logistics is processing to the actual shipments that are leaving our facility. This is important because we like to know the exact freight cost on every single invoice."

But Betco's benefits go beyond cost savings. According to Lyons, Simplified Logistics helps Betco in several other, less tangible but important ways. One is being highly responsive to Betco's needs. "My logistics folks get immediate reaction from Simplified Logistics when we have a challenge," Lyons noted. "Every once in a while, freight will get hung up somewhere and we need help to unlock it from wherever it is. Simplified Logistics comes through for us."

Another is helping Betco improve customer service. For instance, some Betco customers pay their own freight directly to the carrier. Simplified Logistics has given Betco a web-based tool that enables its customer service representatives to easily shop for freight rates and quote how much freight will cost on each shipment to customers that pay direct.

Perhaps the biggest unquantifiable benefit is that Lyons has peace of mind that the company's freight is under control and his people are happy. This allows him to focus on more pressing issues the business faces. "The people who are dealing with logistics and buying freight are very comfortable we're getting fair pricing from Simplified Logistics, and my AP folks are very happy with the way they're processing freight bills," said Lyons. "The fact that I don't hear about any problems and issues means they're very consistent in doing a really good job. And that's a big deal because in my business, I have enough challenges to deal with."

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—Tony Lyons
Betco

Betco clearly has benefited from its relationship with Simplified Logistics. But it's unlikely those benefits would have materialized without Larry Davenport's involvement. "I agreed to meet with Simplified Logistics because I had a lot of faith in Larry," Lyons said. "I looked at him as having vetted the company and I trusted him to bring a really strong vendor to the table. Had Simplified Logistics called me cold on the phone they'd probably never have gotten my attention."

Keys to Success

Why is Simplified Logistics' approach so effective? Five key factors set it apart from others.

Five Reasons Why Simplified Logistics' Approach Is Effective

- 1 It's non-capital-intensive
- 2 It's non-invasive
- 3 It includes advanced logistics skills and tools
- 4 It's objective and straightforward
- 5 It provides an impetus for change

It's non-capital-intensive

Typical transportation systems, consulting services, and other external resources can cost a company hundreds of thousands of dollars. All of what Simplified Logistics provides is paid for out of the savings generated—no upfront or out-of-pocket investments for the initial analysis or to set up, or brokerage fees of any kind, are required.

It's non-invasive

A big challenge with companies that provide "outsourced" logistics resources is the significant learning curve required when external people are put in place on-site, which can be messy and invasive. Simplified Logistics brings the requisite tools, the leverage, and the resources, and does so as an extension of what a company already has in place with minimal managerial oversight required.

"Simplified Logistics doesn't require a lot of time or attention on the part of our portfolio companies' management team," observed Marra. "It doesn't take up weeks of a CFO's time to allow Simplified Logistics to do its initial assessment or to set up its program. And the process of transferring the purchasing of transportation services from the company to Simplified Logistics is also uncomplicated."

Because Simplified Logistics' solution is simple to implement, it enables PE firms to easily add portfolio companies to it and subtract companies from it. Generally, Simplified Logistics can assimilate a new portfolio business within 30 days and exit businesses that are sold in the same amount of time. Importantly, the latter exit with what Simplified Logistics has built for them, and it's transportable, so there's no disruption to the business.

It includes advanced logistics skills and tools

Simplified Logistics has an entire department of logisticians with extensive experience at hundreds of different companies. It's unlikely a company will present a challenge they haven't seen before. Plus, these experts have deep relationships with a broad base of carriers that an individual shipper typically doesn't have.

Augmenting these logistics skills is a robust suite of technology tools that incorporate leading freight management practices. In many cases, these tools automate formerly manual activities to dramatically increase their efficiency and capture valuable data for decision making. And the technology platform can work with virtually any ERP or non-ERP system, which makes it easy to integrate it into a company's back office.

It's objective and straightforward

Simplified Logistics' initial assessment is a free external, objective check-up on a company's current practices. This checkup typically reveals opportunities for the company to generate significant savings on their transportation activities—but not always.

“On two different occasions, Simplified Logistics found that the company was actually pretty good at freight,” noted Davenport. “In both cases, they thought they'd be able to save the company a little bit, but recognized it wouldn't be a homerun. They just complimented the organization and said, ‘You guys just got a clean physical from us. There are things you should be worrying about, but this isn't one of them.’”

Importantly, when discussing benefits, Simplified Logistics can explain them in terms both the C-suite and logistics professionals understand. For the C-suite, this means demonstrating the impact on return on assets, return on capital, and return on business valuation. For logistics professionals, it means showing how Simplified Logistics can give them the tools and resources that can help them do their jobs more efficiently and effectively and make more informed decisions.

It provides an impetus for change

Most organizations, like people, resist change. But often change is needed to improve one's situation. In the case of freight, Simplified Logistics can help provide a compelling case for change—the identification of significant freight cost savings—and help enact that change, even over the objections of people who are firmly entrenched in the current ways of working.

Such change might initially be simply breaking freight professionals of the habit of doing business with the same carriers every year and paying 20 percent over what they should be. It might be breaking down resistance to automation that provides greater visibility into what freight really costs the company, which can be a threat to some people's turf. Or it could be overcoming the tendency for organizations to default to the “do nothing” option because it's easier. A demonstrated significant boost to the bottom line is too hard to ignore, and can be the impetus needed to erase typical objections to changing how freight is managed.

Conclusion

As the business world has become more complex, so have the challenges that companies must address. That's certainly true of accounting and PE firms which, while very different types of businesses, must contend with increasing pressure to devise solutions to problems that can be outside of their core areas of expertise. In such instances, having access to a suite of external experts can fill in the knowledge and skills gap.

One of the most important types of external expertise that firms should tap into is logistics. With logistics playing such an important role in providing superior customer service, and comprising such a large proportion of a company's costs, improvements in logistics operations can deliver a significant and immediate boost to operating and financial performance. For accounting firms, that translates into happier and more loyal clients, while for PE firms, it can mean a more valuable asset that fetches a higher sales price and bigger return on investment.

With its proven, non-invasive, and non-capital-intensive approach to freight, Simplified Logistics can be a valuable partner in delivering such logistics improvements—and the larger benefits that they can generate.

David Klugman is chief executive officer and managing partner at Simplified Logistics. He is a 35-year logistics services industry veteran and the co-creator of Simplified Logistics' business model to scale Fortune 100 logistics strategies and technology to the middle market.

Joseph Brady is executive vice president – marketing and strategic alliances at Simplified Logistics. He has more than 25 years of experience in the logistics and supply chain solutions industry.

About Simplified Logistics

Through a combination of proprietary technology, structured processes, marketplace leverage, and industry expertise, Simplified Logistics helps companies accelerate and maximize logistics savings, improve logistics processes and productivity, and enhance customer profitability and service levels. Hundreds of manufacturers and distributors have capitalized on Simplified Logistics' services and solutions to boost logistics' contribution to the overall enterprise and, consequently, improve their P&L and business valuation.

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