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Case Study: Inteplast Group & Priority Distribution - Raising Pool Distribution to a New Level

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Background

Inteplast Group, Ltd (Inteplast) was established in 1991 as a subsidiary of Formosa Plastics Group of Taiwan, the largest privately held enterprise in Taiwan with annual sales exceeding \$16.8 billion and more than 50 years experience in the plastics and petrochemical industries.

Today, Inteplast is an independent company and one of America's leading manufacturer's of plastics products for a wide variety of industries. Inteplast has achieved astounding growth reaching \$7.5 billion in 2005. From its' massive 700-acre, nine plant, site in Lolita, Texas, Inteplast distributes their products throughout the America's. The Inteplast plants are the largest of their kind in the world, with capacity to produce in excess of 1.5 billion pounds of product annually, and are all ISO 9002 registered.

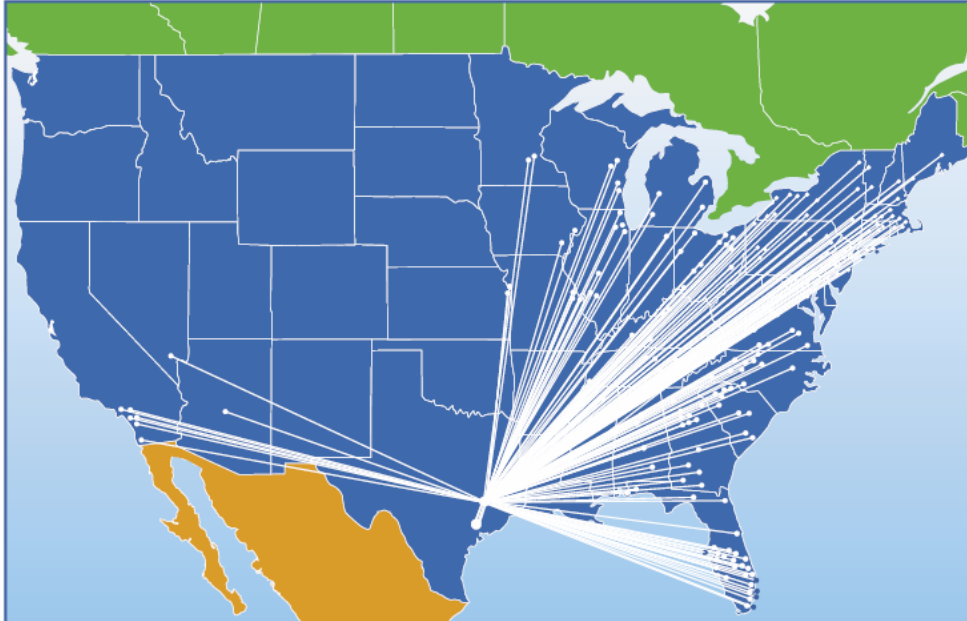
Inteplast operates three divisions producing a wide range of plastics products for the industrial/food packaging, home construction, household, and supermarket industries.

- AmTopp: produces polypropylene film, stretch wrap, and plastic concentrates.
- World-Pak: produces fluted boards, PVC sheets and foam, and cross-laminated film.

- Integrated Bagging Systems: produces T-shirt bags, trash can liners, produce bags, and industrial/food packaging.

In early 2004, Inteplast recognized inefficiencies in the company's existing supply chain process. The increasing number of customer orders requiring less-than-truckload (LTL) shipments (Exhibit A) resulted in longer lead times, higher transportation costs, and excessive damage. It also resulted in disjointed communication between various participants in the supply chain process, including Inteplast's marketing, shipping, traffic, and customers.

Exhibit A



Decision to Outsource

During the summer of 2004, Inteplast decided to evaluate potential third party logistics service providers. They identified and communicated the following six supply chain objectives as critical success factors:

1. Reduce order to delivery lead times
2. Eliminate product damage claims
3. Reduce total transportation costs
4. Execute scheduled, time definite shipments
5. Employ best-in-class processes and technology
6. Provide visibility for all in-transit shipments

Additionally, Inteplast wanted to continue their rapid growth, use capital more efficiently, achieve a competitive advantage, and gain market share without internal logistics constraints.

In October 2004, Inteplast selected Priority Distribution, Inc. (PDI), an East Brunswick, NJ transportation 3PL, as their strategic partner. PDI was an established logistics service provider, founded in 1987, that had evolved into a proven value-add transportation 3PL providing similar services to other manufacturing clients.

Strategic and Tactical Approaches

At the strategic level, PDI used a total system approach to define how Inteplast should optimize its transportation logistics flows from plant to their ultimate customer. PDI analyzed, designed, and introduced a new network infrastructure to improve product flows, optimize transportation modes and ensure the effective tradeoff between required service levels and transportation costs.

At the tactical level, PDI developed and managed a pool distribution program that would not only meet Inteplast's stated objectives but would also provide a host of other benefits. PDI selected and contracted with a core group of

quality TL carriers for dedicated lanes, as well as best in class regional LTL carriers to provide the final leg of service. PDI would be the single source for all these services and be the single point of contact for Inteplast.

On an operational level, PDI designed and managed processes to optimize freight flows, consolidate LTL shipments, optimize carrier assignment, execute continuous moves, provide regional distribution, and effectively integrate all supply chain partners. Shipment status and real-time visibility were provided through PDI's proprietary web-based technology. The result was a vastly improved and streamlined network (Exhibit B).

Exhibit B



Results

Results thus far have yielded improvements in all targeted areas (Exhibit C). In addition, Inteplast has gained significant benefit from PDI's proven processes and now has real-time visibility to their in-transit shipments through PDI's proprietary web portal.

As a result of these successes, Inteplast recently expanded the program to include the entire west coast and is currently evaluating a similar expansion into Canada.

Exhibit C

Before	After
>12 % LTL shipments	<5 % LTL shipments
Long order-delivery lead times	2-3 day reduction in order-delivery lead times
Excessive freight damage	Freight damage nearly eliminated
High transportation cost	13-15% reduction in transportation cost
Poor on-time performance	96.5%+ on-time performance

Conclusion

Besides the classic definition (Exhibit D), Pool Distribution has been identified as a prime example of Collaborative Transportation in that, with proper execution, many of the inherent inefficiencies of traditional order fulfillment processes are reduced, if not eliminated. First, Pool Distribution converts more costly line-haul shipments from LTL to truckload. Second, it optimizes the weight and/or volume utilization of transportation assets. Third, it reduces deadhead miles by better sequencing and routing transportation assets within a transportation network. Fourth, it ensures freight is handled fewer times resulting in a lower likelihood of damage. Finally, it reduces billing errors and inaccurate communications. Additionally, carriers benefit with more predictable and regular routes enabling them to attract and retain quality drivers and reduce operating costs.

Exhibit D

Pool Distribution

Pool distribution is a transportation option for high volume LTL shippers. Pool distribution combines multiple modes of transportation in order to compartmentalize the specific transportation functions – pickup, line haul, cross-dock, and delivery. Each function is tendered to a service provider, whose core competency is that specific function, thus maximizing efficiency throughout this component of the supply chain.

The opportunities to add value through Pool Distribution increase as multiple shipper networks are integrated, connecting a broader network of shippers, receivers and carriers and enabling enhanced opportunities for communication and improved execution. Central to the effort to connect a network of collaborating parties is the development of a common information hub. In general, the level of information sharing increases with the level of collaboration.

The most critical factor in Pool Distribution is ensuring that all parties are of the right mindset and have the correct expectations for the results of the program. The key to success is collaboration. Complete and accurate data must be available to all parties to ensure that the program is successful for everyone involved – all partners must be equal and must understand the role they will play and the benefit their organization will realize before any shipments move.

Those considering implementing a Pool Distribution program should recognize that while the concept is not new, effective execution remains challenging and will only be successful with capable and committed supply chain partners. What's important to recognize is that with any form of Pool Distribution there must be a driving motive for all parties involved in the relationship to work together to achieve something greater than any individual company acting in isolation could achieve on its own. To that end, participants become a committee of "equals" – there is no room for "lesser members".

Introducing Priority Distribution Inc.

Priority Distribution Inc.

- Founded in 1987 as Priority Distribution Inc. (PDI)
- Headquarters in East Brunswick, NJ
- Privately held business with the founder, Daniel McElroy, still running the day-to-day business as the president and CEO.
- Provides a wide variety of value-add transportation, warehousing and distribution services.
- Provides logistics consulting and broader supply chain analyses to optimize a company's distribution network.

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PDI began providing Pool Distribution services in 1997 as an alternative to traditional LTL service. The program began as the company sought a more efficient way to meet the compliance requirements of major retailers for a client of theirs manufacturing home appliances. As they began analyzing different strategies designed to meet their client's needs, they quickly recognized the enormous benefits Pool Distribution would deliver. Today, PDI has taken Pool Distribution to a new level and currently provides this service to a growing number of customers and industries.