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Smart. Focused. Done Right.®

The Enterprise Supply Chain View

SSON Supply Chain Learning Series

Table of Contents

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About ScottMadden

About ScottMadden

ScottMadden has been helping clients create greater value for their corporate services organizations for nearly 30 years. Our highly efficient, collaborative teams employ measurable, award-winning methods and deep cross-functional expertise to improve operational performance.

Corporate and Shared Services Practice

Finance & Accounting	Human Resources	Information Technology	Supply Chain
ScottMadden can improve process efficiency and automation to ensure accurate and timely financial information and compliance.	ScottMadden designs, builds, and implements HR Service Delivery models to ensure efficient and effective HR operations that meet business needs.	ScottMadden helps organizations create measurable IT value by focusing on business engagement to improve IT decision making.	ScottMadden can craft new supply chain strategies and deliver improvements in operations, increasing the value delivered to customers.

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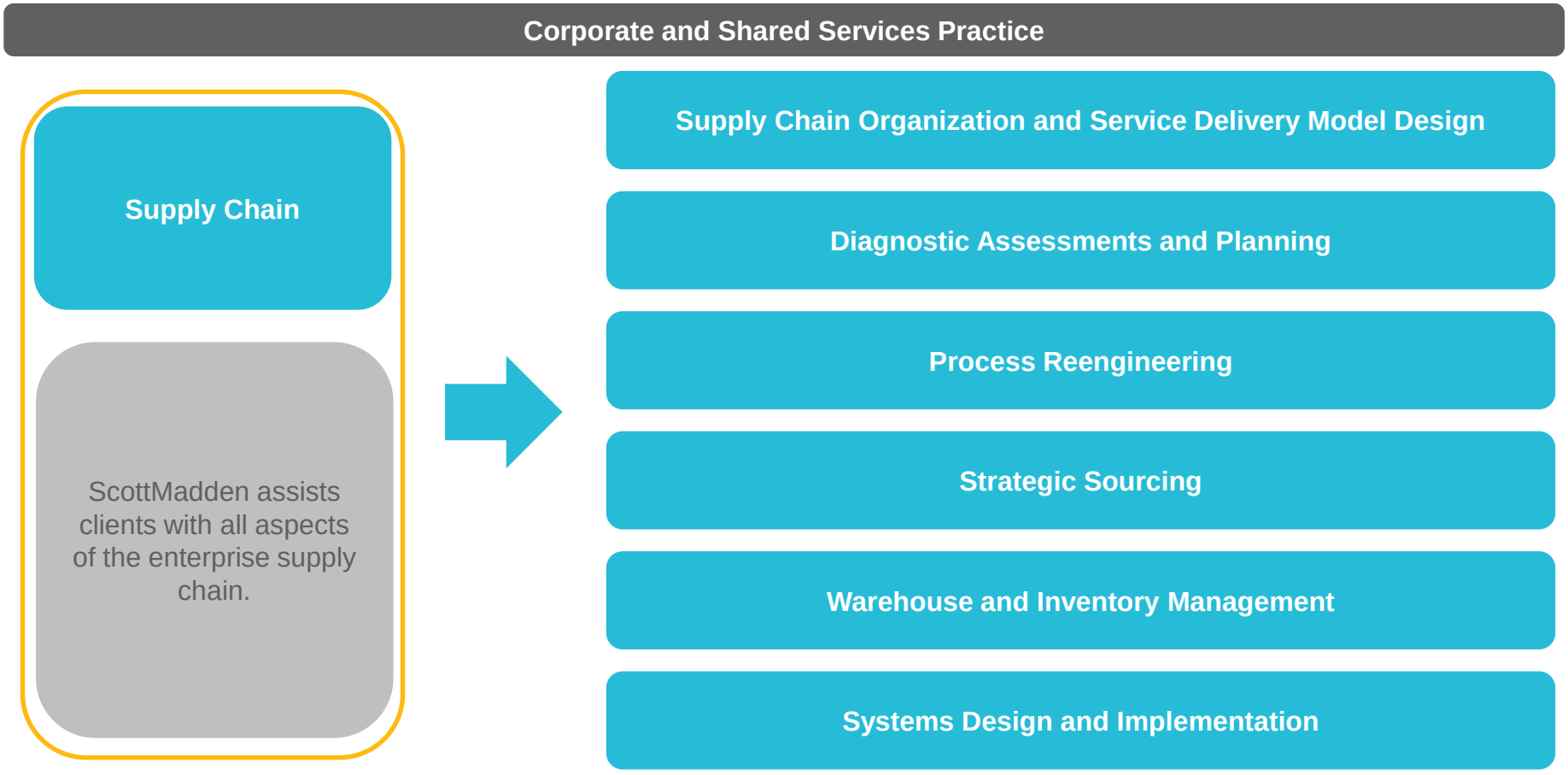
About ScottMadden (Cont'd)

At ScottMadden, we assist in all aspects of the supply chain. We work with clients on all of the following:



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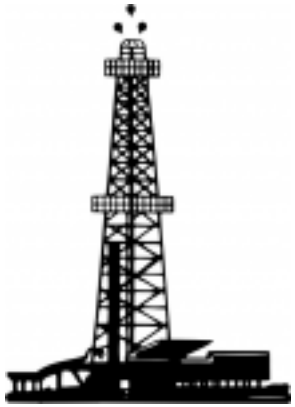
Key Components of Supply Chain

Supply Chain Definition

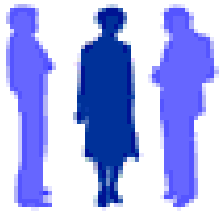


Raw Materials

Supplier

Manufacturer

Logistics and Materials Management



End-Use Consumer

Customer

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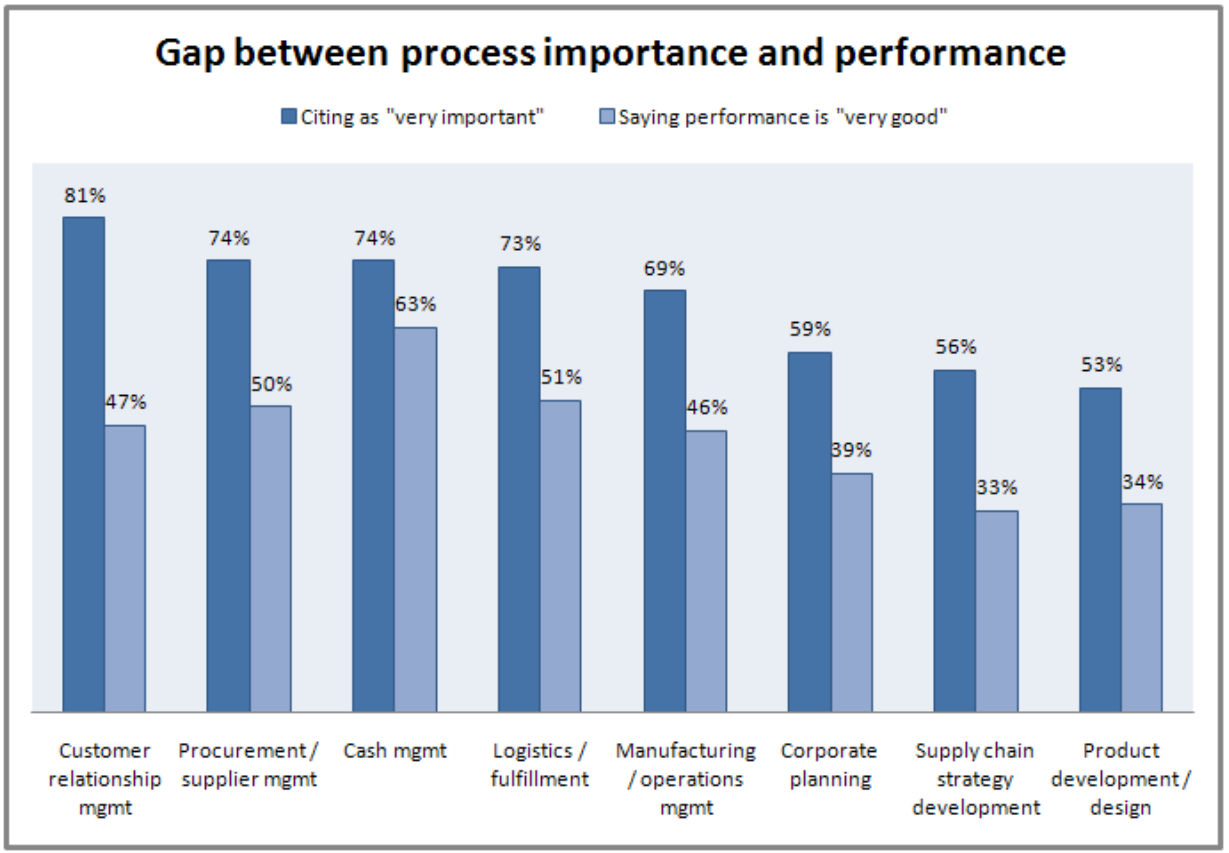
Supply Chain Importance/Performance Gap

Problem Statement

- Corporate leaders' recognition of supply chain value continues to grow, but performance is still lagging. This disconnect is largely due to supply chain organizations' inability to move beyond their "transactional origins" and focus on the areas in which the organization can extract the most value

Shared Services Solution

Supply chain, delivered as a shared service, facilitates cost reduction through standardization and economies of scale while ensuring alignment with the business through a customer-focused, metric-driven delivery model



Source: Survey from CFO Research Services

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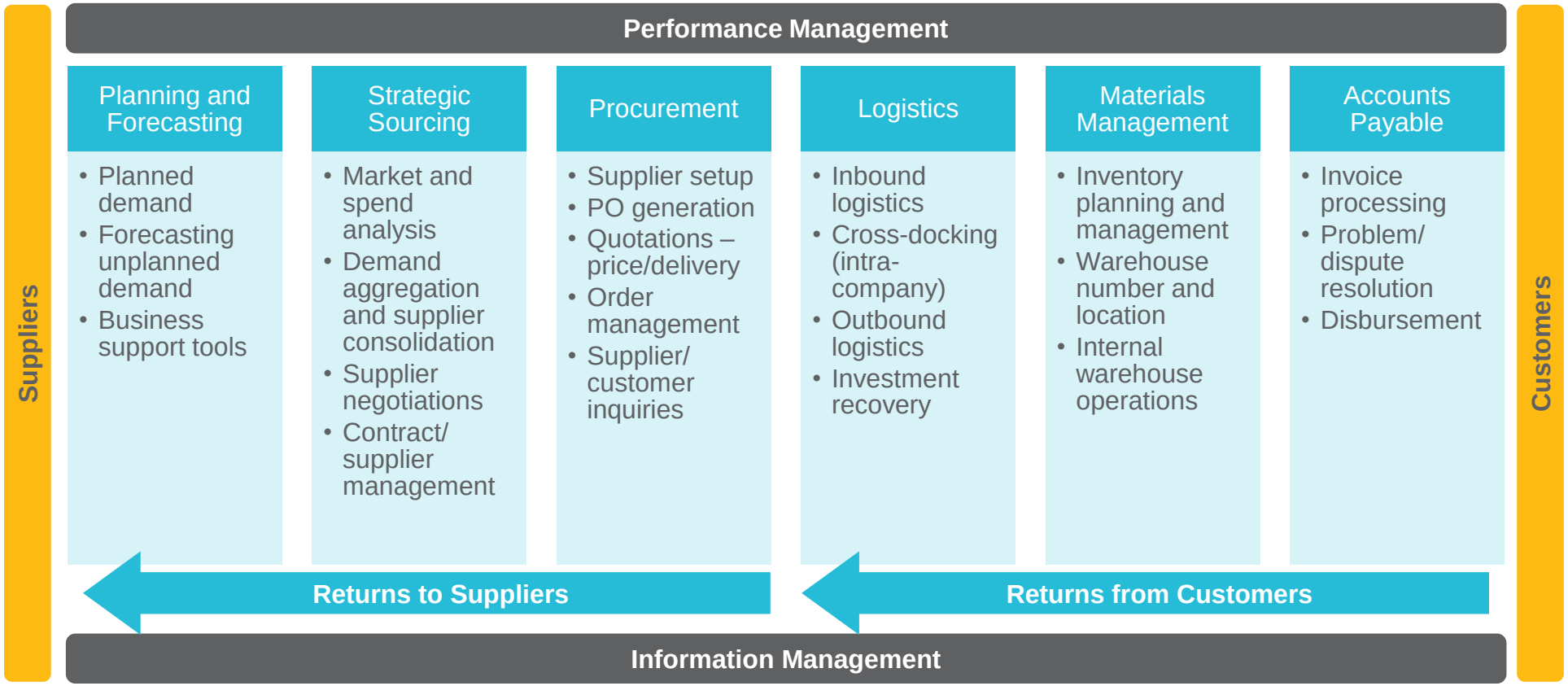
Key Components of Supply Chain

The six major supply chain functions are described below. Leading practice supply chains have evolved from a "functional silo approach" in the 80s to a more "integrated model" today which leverages standardization and process collaboration/visibility to align the appropriate skills with the degree of complexity for a particular purchase.



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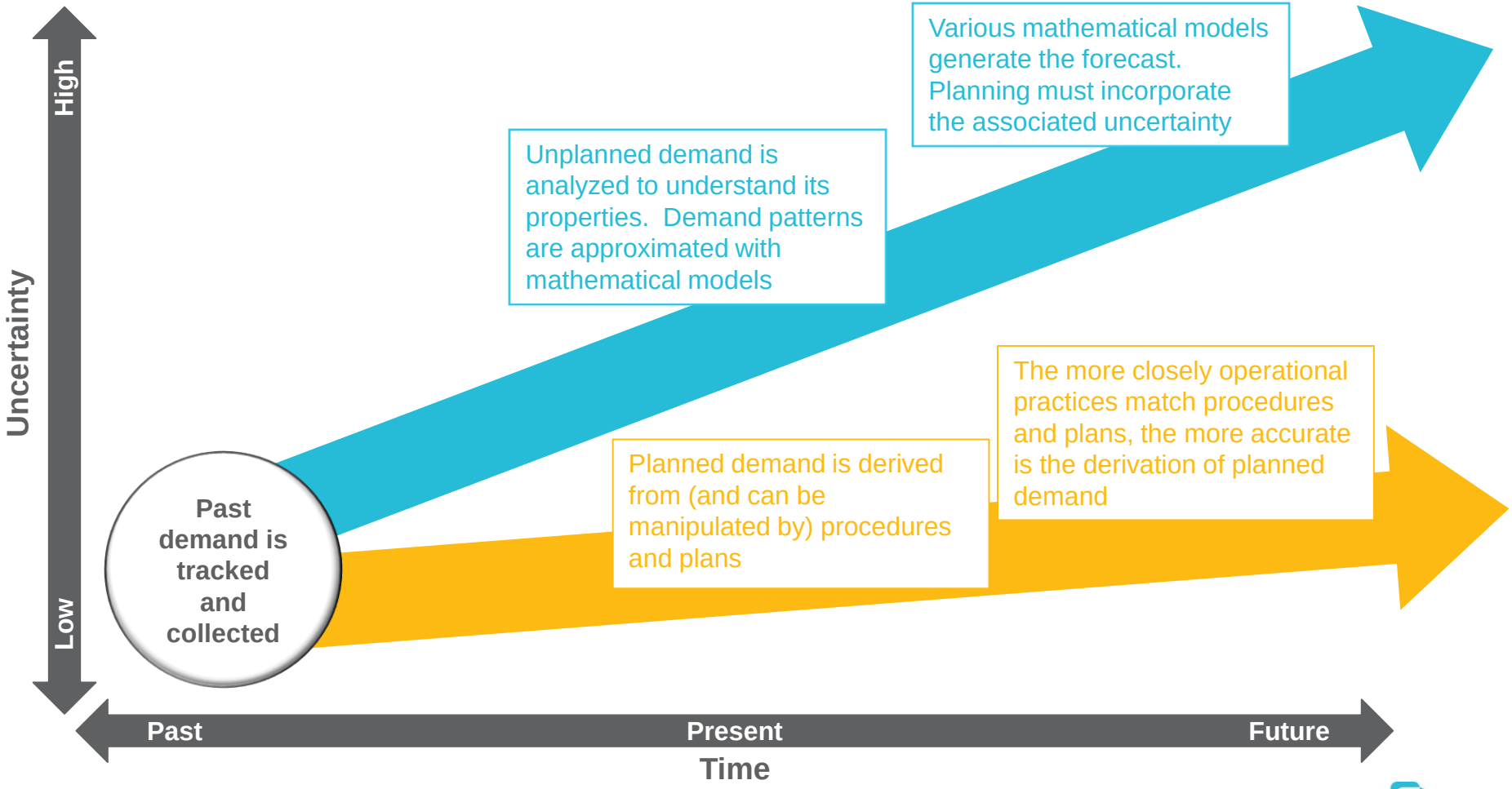
Planning and Forecasting

Planning and forecasting helps businesses more intelligently deploy resources to meet two types of demand—unplanned and planned demand—without excessive inventories or logistics costs such as expedited freight. A company can never be a top supply chain performer without doing well in this functional area.



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Strategic Sourcing

Strategic sourcing is a disciplined, proven methodology consistently applied across the organization to reduce the cost and improve the value of procured goods and services. It can best be described as a fact-based "chain" of analyses, strategies, and decisions.

- Current spend profile
- Future trends
- Operational strategies
- Cost drivers
- Forecast improvements
- Specifications analysis
- Aggregation potential

- Conducting supplier and market research
- Evaluating market forces

- Competitive bidding
- Direct renegotiation
- Auctioning

- RFP development and distribution
- Evaluation and selection process

- Planning
- Execution

- Supplier Relationship Management
  - Scorecards
  - Policies
  - Procedures
  - Governance

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Strategic Sourcing (Cont'd)

To effectively execute the approach shown below, key resources must have the following knowledge:

- Supplier base
- Contracting practices
- User requirements
- Technical specifications
- Supplier performance
- Market/category specifics

Spend Analysis

- Evaluate profile of historical spending by supplier, plant, business unit, etc.
- Develop future spend needs
- Understand key cost drivers
- Evaluate opportunities in existing contracts

Market Analysis

- Understand supplier industry trends
- Identify key supplier base
- Evaluate industry in terms of market rivalry, buyer power, supplier power, new entrants, and substitutes

Recommendations

- Determine best strategy:
  - Combine spend across within and across business units
  - Bundle materials/ services procured from key suppliers
  - Extend contract duration for better terms
  - Renegotiate with preferred suppliers
  - Competitive bid
  - Standardize/simplify specifications

A successful strategic sourcing program requires the right knowledge and a disciplined approach.

Typical savings from this approach are 3-5% of total spend

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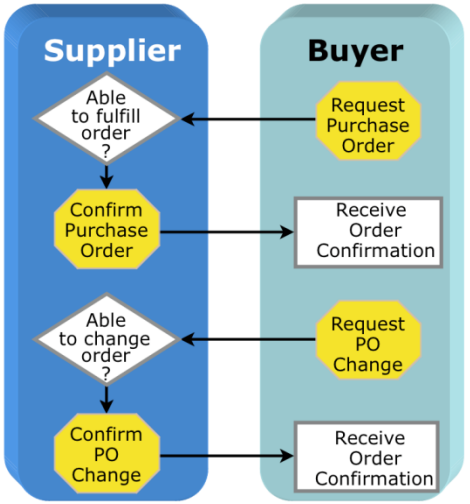
Supplier Setup, PO Generation, and Quotations

Procurement serves as the primary processing area for the acquisition of materials and services.

1. Supplier setup
2. PO generation
3. Quotations – price/delivery
4. Order management
5. Supplier/customer inquiries

Supplier – Buyer Interactions



Procurement activities are characterized by the following:

- Highly transactional and mostly driven by technology automation
- Not many variations in the process
- Requisition reviews for purchases consistent with established business rules
- Supplier qualifications and basic supply/market evaluations
- System-generated purchase order reviews

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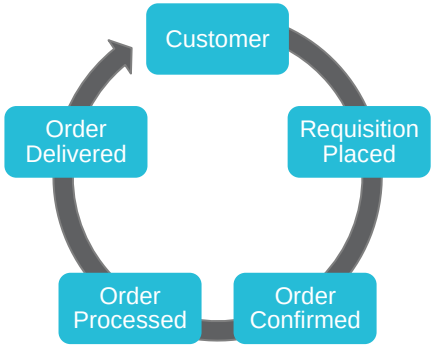
Order Management and Inquiries

Effective order management allows the procurement function to meet the customer's expectations.

1. Supplier setup
2. PO generation
3. Quotations – price/delivery
4. Order management
5. Supplier/customer inquiries

Additional activities include the following:

- Tracking and order status actions including customer communications
- Coordination with suppliers and transportation, import, and inspection providers to ensure timely and accurate order delivery
- Expediting deliveries for emergency needs
- Responses to supplier and customer questions for POs, invoices, proof-of-deliveries, additional documentation, etc.



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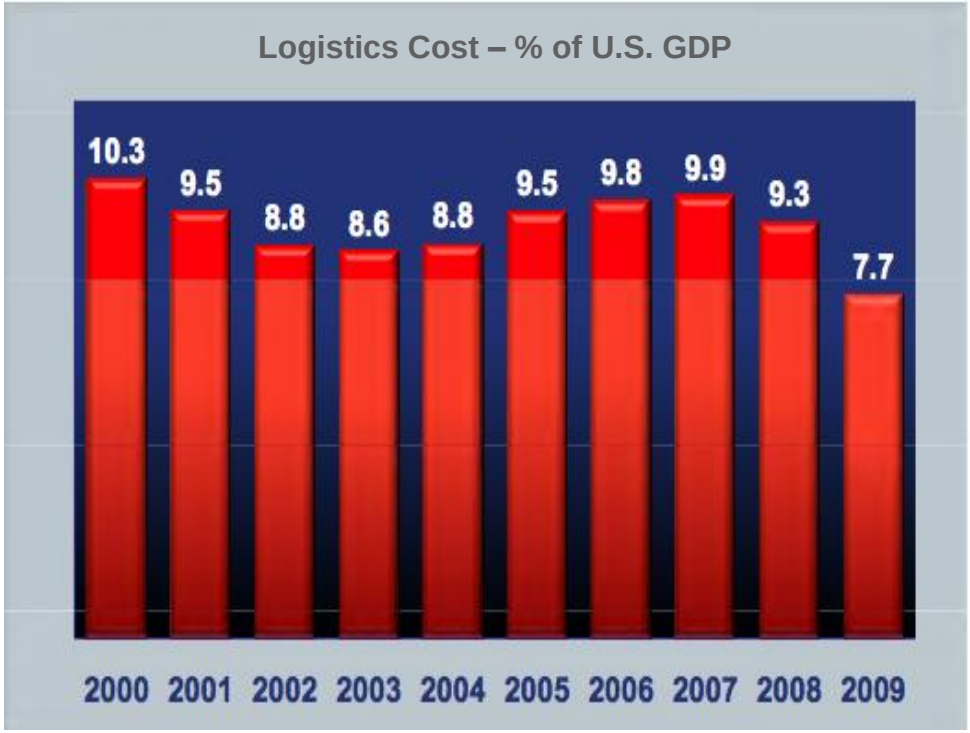
Logistics

Logistics connects all key points in the supply chain and is characterized by the following:

- Transportation mode (freight, rail, parcel, air, etc.) and carrier selection
- Service level analysis and carrier contract management
- Claims (missing or damaged product) management
- Returns processing and obsolete/scrap sales



Source: CSCMP's State of Logistics Report, June 2010

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Transportation

Transportation management and optimization seeks to cost effectively deliver products on-time and undamaged.

Transport Mode Selected	Service Level Determined	Carrier Selected	Shipment Tracked to Delivery	Claims Managed
■ Freight (TL or LTL) ■ Parcel ■ Rail ■ Ship ■ Air	■ Same day ■ Next day ■ One week	■ Internal (cross-dock) ■ UPS ■ FedEx Freight ■ Broker	■ In-transit tracking ■ Advanced shipping notice	■ Missing parts ■ Damaged items ■ Incorrect material

Transportation activities are characterized by the following:

- Transportation mode optimization (e.g., shipment planning and consolidation)
- Route/equipment optimization (e.g., delivery point consolidation, reducing miles, and right-sizing loads)
- Transportation vendor negotiation and contracting (e.g., core carriers and negotiated rates)
- On-time delivery, quality shipment, and cost monitoring

Reverse Logistics

Reverse logistics is the process for handling returns from customers and returns to suppliers.

Reverse Supply Chain Flow Identified	Item Evaluated and Disposition Determined	Disposition Coordinated	Final Disposition Executed
Returned from customer	Inventory	Market evaluation	Logistical coordination
Surplus or obsolete	Return to supplier	Supplier coordination	Payment and indemnity terms
Inoperable	Third-party sale	Marketing and sales	System adjustment
Damaged	Scrap	Contracting	
	Donate		

Reverse logistics activities are characterized by the following:

- Surplus asset identification and appraisals
- Demolition and dismantlement coordination (and associated environmental and safety considerations)
- Surplus asset disposal
- Marketing and sales coordination
- Contract administration

Materials Management

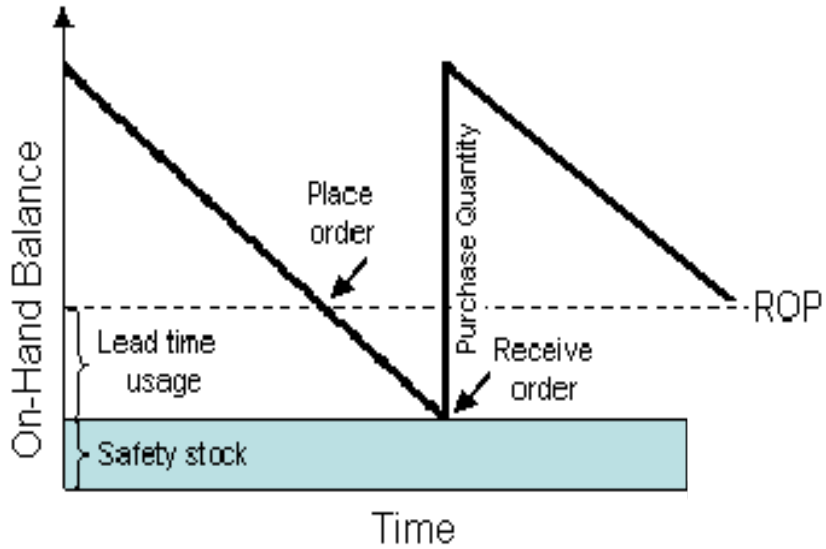
- The supply chain's role as an enabler of business strategy is easy to see in materials management, which includes responsibilities like:
  - **Inventory planning and management**: managing the inventory investment in a manner that minimizes costs while supporting required service levels
  - **Warehouse number and location**: determining how many warehouses are in the distribution network, where they are located, and how they are designed
  - **Internal warehouse operations**: managing the people and processes that dictate the flow of material and information within the warehouse
- Materials management is responsible for what is often one of a company's largest assets, the inventory, and is typically an area of highly variable and multi-directional activity

- Many physical "touches" and a large amount of an organization's work occur in materials management

Inventory Planning and Management Process

Demand Forecast	Stocking Decision and Service Level	Order Quantity	Re-classification	Accounting and Control
■ Demand is tracked ■ Demand patterns (variability, seasonality, etc.) are mathematically approximated ■ Demand is forecasted	■ Stocking decisions consider desired delivery and availability ■ Service level requirements drive re-order points (ROP)	■ Order quantities are determined based on a variety of factors ■ The primary goal is to order in quantities that minimize operational costs	■ Demand for products changes over time ■ Forecasts, stocking decisions, service levels, and order quantities must be periodically refreshed	■ Inventory accuracy is key to achieving desired service levels ■ The inventory asset is often significant and must be regularly accounted for

An illustration of purchase quantity (PQ), re-order point (ROP), lead time usage, and safety stock appears below.



Safety stock levels (the buffer against demand variability) are set using statistical calculations based upon the demand forecast, demand variability, and a desired service level

Inventory Planning and Management Process (Cont'd)

Inventory optimization is about having:

- The right materials – work orders, BOMs
- In the right quantities – inventory levels, service levels
- At the right place – which warehouse, where in the warehouse
- At the right time – demand forecasting, lead times
- For the right price – procurement and strategic sourcing

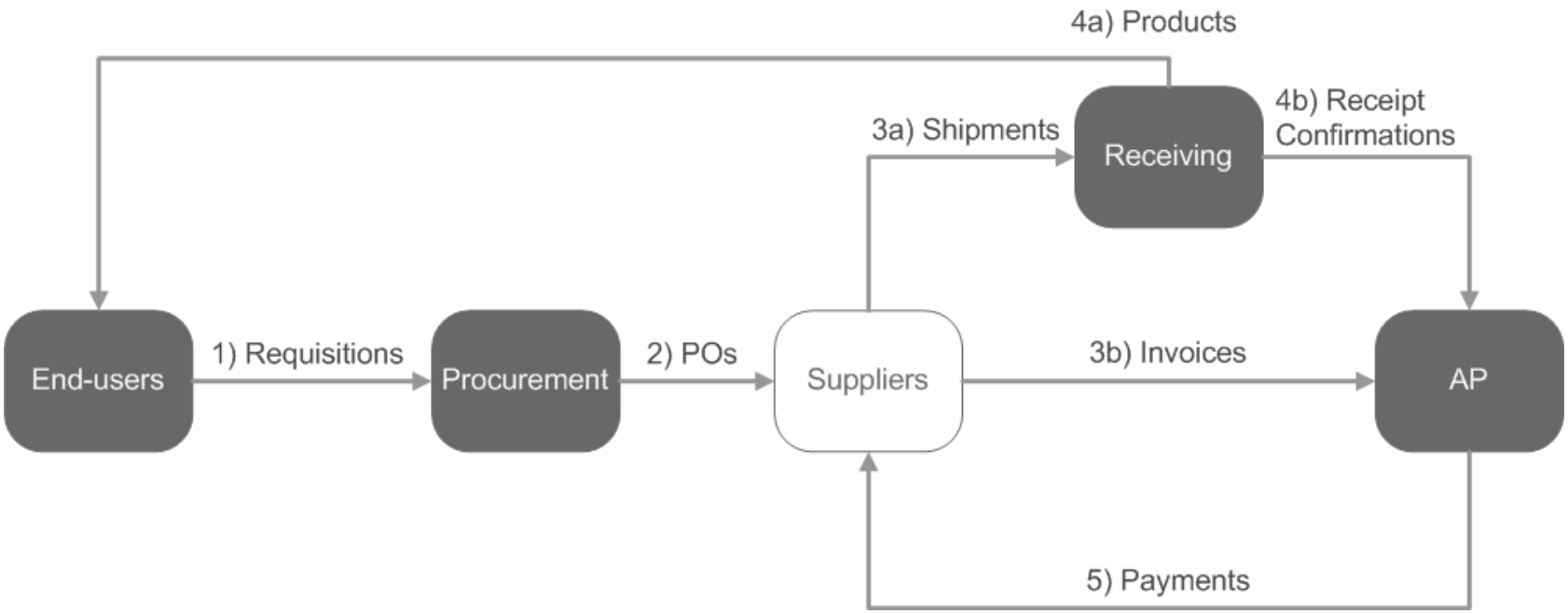
Improving inventory management requires participation of many employees with clear decision rights. A leading practice allocation is reflected in the table below.

Business Units	Strategic Sourcing/ Procurement	Materials Management	Inventory Management
■ What materials do we need?	■ Which suppliers will we use?	■ How do we receive and issue effectively?	■ How much should we keep on hand?
■ How much do we need?	■ How much should we pay?	■ Where will it be stored in the warehouse?	■ In which warehouse should it be stored?
■ When do we need it?	■ How do we ensure supply?	■ Is the shelf count accurate?	■ From where should each request be drawn?
■ Where will we use it?	■ What are the expected lead times?	■ Is it maintained adequately?	
■ What is our risk tolerance?	■ Who will deliver it? When?		

Linkage to Supply Chain

Supply chain processes must be effective for AP to perform at a high level and AP's performance has a significant impact on a company's relationship with suppliers. There are several factors that determine whether this works well

- Purchase Orders (POs) must reflect end-user requirements and be clear to suppliers
- Supplier shipments and invoices should "match" the PO
- Products sent to end-users and confirmations to AP should accurately reflect the shipment
- Payments should "match" the PO, invoice, and confirmation and be clear to suppliers



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Benefits of Supply Chain Leading Practices

Summary of Leading Practice Benefits

Leading practice supply chain organizations utilize the following to improve performance:

- Documented key performance indicators and goals used to evaluate and improve integrated processes
- Standardized processes and forms to buy goods and services
- Optimized supplier base
- Centralized procurement and payables organization
- Automated purchase order processing to improve cycle times and drive cost savings

Included below is a summary of savings benefits from leading practice adoption.

Improvement Area	Performance Impact
Material/service costs	Reduce costs 5%-12% through informed strategic sourcing strategies.
Supplier management	Eliminate duplicative suppliers (reduction depends on previous efforts).
Contract compliance	Improve compliance 55%. Save 7% through use of contract pricing.
Inventory management	Cut excess stocks >50%. Lower inventory costs 5%-50%. Reduce expediting costs.
Product management	Cut unnecessary part introductions by 20%. Increase part reuse. Align design and supply strategies. Facilitate early supplier integration.
Process cycles	Reduce spend analysis project cycles 30% to 50%. Refocus sourcing and business managers on strategic tasks.

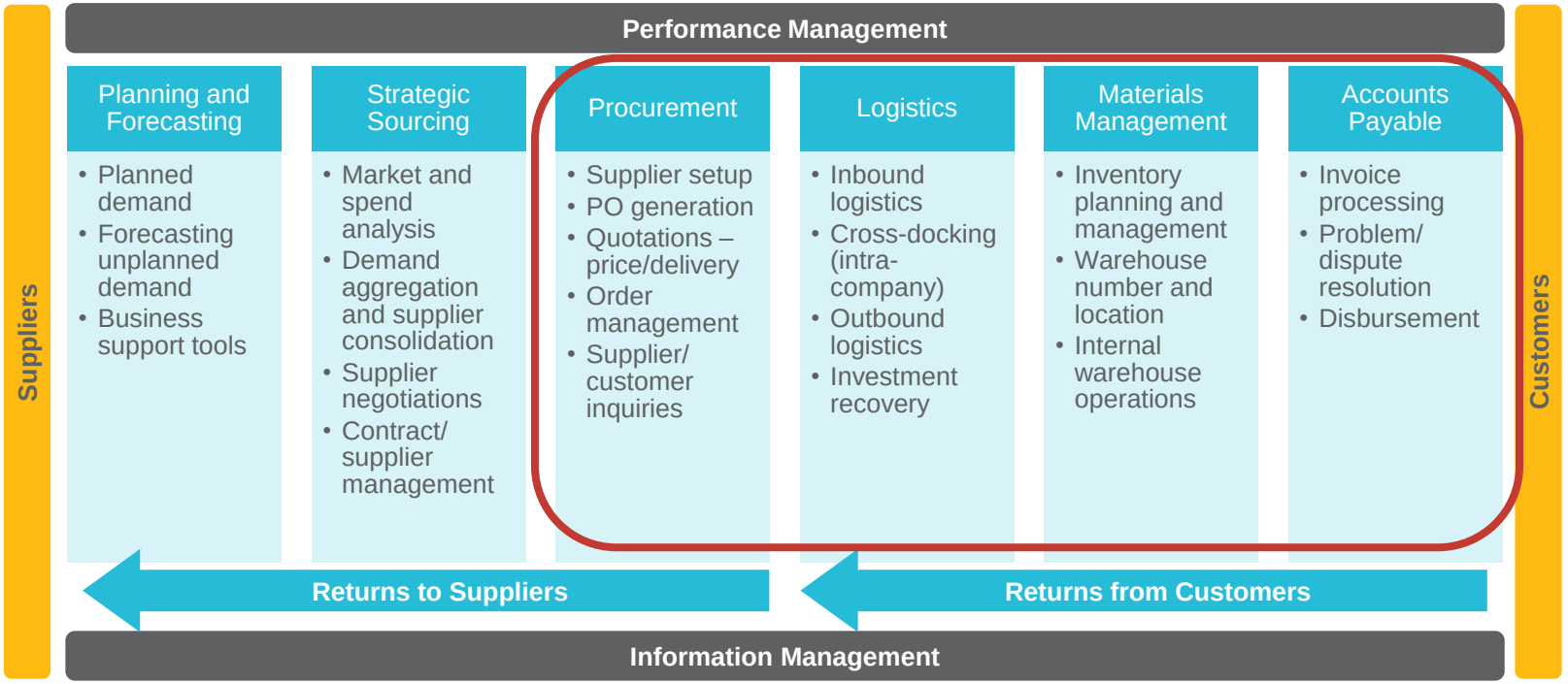
Source: Aberdeen Group Study, "Best Practices in Spending Analysis."

Future Supply Chain Topics

Future Supply Chain Topics

The ScottMadden and SSON Supply Chain Series will also include the following topics:

- Topic 2: How Procure-to-Pay (P2P) Fits Within an Enterprise Supply Chain
  - This topic will focus on the key attributes of a successful P2P transformation and the role technology plays in enabling the capture of the synergies and savings associated with P2P in a shared services delivery model



Topic 3: Supply Chain Governance

- This topic will explore the key building blocks of effective supply chain governance models including decision rights, performance metrics, service level agreements, and issue escalation/resolution. We will also present methods to create alignment across an enterprise for a consistent supply chain strategy that clearly differentiates transactional efficiency from higher-value, strategic activities

Contact Us

For more information on ScottMadden and the enterprise supply chain, please contact us.

Andy Flores

Partner

ScottMadden, Inc.
3495 Piedmont Road
Building 10, Suite 805
Atlanta, GA 30305
aeflores@scottmadden.com
O: 404-814-0020

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