Agenda

• Elemica SCON
• VMI Defined
• Benefits of VMI
• VMI Program Best Practices
  • Creating a foundation for supplier management success
  • Using segmentation to target the right suppliers
  • Change management & driving a win/win
Elemica Supply Chain Operating Network

QuickLink™ Integration

Connections
Inter-Co

Master Data

Client ERP

Document Stream

Elemica Client ERP

Document Stream

Client Partner's ERP

SmartLink™ Analytics
Universal Business Concepts

On-Boarding

Collaboration

Unstructured Data

Universal Business Concepts

Discover

Universal Data Model

Universal Business Documents

Connections

Mapping

Inter-Co Master Data

SmartLink™ Applications

3rd Party Applications

Universal Data Model

ELEMICA CONFIDENTIAL
Supplier Management

One Buyer...Many Suppliers
With Elemica
Manage your supplier network with one connection
Manage your ordering processes with one solution

QuickLink™ Network

Supplier 1
Supplier 2
Supplier 3
Supplier 4
Supplier 5
Supplier 6
Supplier 7
Supplier 1000

SmartLink™ Applications

Purchase Order Management
Delivery Forecast
Invoice Management
Certificate of Analysis (CoA)
Vendor Managed Inventory
Global Supply Management
VMI Defined
VMI or VMOI (vendor managed and owned inventory) is a collaboratively managed order replenishment solution providing your suppliers the tools to create optimized delivery schedules through shared visibility into your forecast and inventory levels.

**Common Acronyms**

VMI – Vendor Managed Inventory  
VM(O)I – Vendor Managed & Owned Inventory  
SMI – Supplier Managed Inventory  
CRP – Continuous Replenishment Planning  
CPFR – Collaborative Planning Forecasting & Replenishment
What is VMI?

Buyer

Plan
- Inventory & Forecast
- Supply Plan/Order Commitment
- Projected Inventory Logic

Fill
- Book Delivery Slot
- Advance Ship Notice
- Certificate of Analysis
- Delivery Receipt

Pay
- Invoice
- ERS/Pay on Receipt
- Payment Advice

Supplier

End to End Integration
Business Rules Engine
Business Process Workflow
Report, Notification, and Alert Generation
Benefits of VMI
Why VMI?

Unlocking Working Capital Best Practices for Reducing Inventory – Aberdeen

Inventory Misconceptions: Using purchase orders or release notices for replenishment is efficient
A growing number of companies that used to cut purchase orders or release notices for their suppliers are discovering it is more effective to ask suppliers to take responsibility for maintaining inventory between min/max levels.

The Chief Supply Chain Officer Report 2013 – SCM World

Strong Supplier Relationships listed as second most important value contributor

The Resurgence of Vendor-Managed Inventory – AMR

The Bottom Line: We are in an era where effective vendor-managed inventory approaches may be necessary for survival.

B2B Collaboration No Longer Optional – Aberdeen

The top priorities for leaders are collaboration with suppliers and customers. The likelihood is 72% greater for the leaders than the followers to collaborate with suppliers.
Why VMI?

**Automation**
- Reduce processing costs
- Free up human capital
- Cut overtime & rush shipments
- Improve operational planning
- Increase perfect orders and reduce points of intervention
- Capture early payment discounts
- Manage by exception

**Collaboration**
- Increase forecast and planning accuracy
- Reduce safety stock
- Improve upstream planning by giving suppliers real time visibility into operations
- Reduce shortages and stock outs
- Reduce transportation costs
- Build closer relationships with partners
- Provide an incentive for consignment

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<th>Best in Class Automated</th>
<th>All Others Manual</th>
<th>Percent Improvement</th>
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<tbody>
<tr>
<td>Purchase Order</td>
<td>$4.13</td>
<td>$16.94</td>
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<tr>
<td>Order Response</td>
<td>$0.50</td>
<td>$8.70</td>
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<tr>
<td>Ship Notice</td>
<td>$1.50</td>
<td>$12.46</td>
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<tr>
<td>Invoice</td>
<td>$3.67</td>
<td>$17.77</td>
<td>79%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$9.80</strong></td>
<td><strong>$55.87</strong></td>
<td><strong>82%</strong></td>
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$1.5B – Annual Raw Material Spend
30% - Managed in VMI
15% - Managed in VM(O)I
5 – Days of Inventory Reduction

$32M – Working capital reduction - consignment
$7M – Working capital reduction from inventory turnover improvement

$2.4M – Annual Cost of Capital Avoidance @ 6%

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VMI Program
Best Practices
**Procurement Execution**

- Automate standard business processes
- Start change management effort
- Build partner network
- Capture automation savings
- Build B2B program momentum

**Process Collaboration**

- Modernize business processes
- Collaborate with suppliers
- Gain visibility into extended supply chain
- Reduce transportation costs
- Focus on value add activities
- Reduce working capital
<table>
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<th>Process Collaboration</th>
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<td>Purchase Order Management &amp; DELFOR</td>
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<td>CoA</td>
<td>Slot Booking</td>
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**Year 1 - 2**
- Build out standard ordering process
- 50% of direct material spend automated (Purchase Order Management & Invoice)

**Year 3**
- 40% of raw material spend in VMI
- 10% of raw material spend in VM(O)I
Starting programs with the right suppliers is critical to success.

**Kraljic Portfolio Model - Segmentation around Sourcing Strategy**

- **Leverage Supply**
- **Strategic Supply**
- **Routine Supply**
- **Bottleneck Supply**

- **High** Profit Impact
- **Low** Profit Impact

- **Low** Supply Risk
- **High** Supply Risk

**Supplier Segments**
Segmentation is key

Procurement Execution Process for Strategic Segment

- **Leverage Supply** (Low Profit Impact, Low Supply Risk)
- **Strategic Supply** (High Profit Impact, Low Supply Risk)
- **Routine Supply** (Low Profit Impact, High Supply Risk)
- **Bottleneck Supply** (High Profit Impact, High Supply Risk)

Supervision Segments

Profit Impact

Supply Risk
How to make VMI work

Procurement Execution Process for Strategic Segment

VM(O)I Factors
- Category
- Volume
- Value
- Transportation Time
- Sourcing Strategy
- Steady Consumption
- Internal abilities
- Leverage
- Familiarity
Change mgt & driving a win/win

- Accurate and transparent data is essential
  - Forecast data
  - Delivery data
  - Inventory data

- Change management
  - Organize – Align internally
    - Executive sponsorship
    - Comprehensive team (commercial, mat mgt, plants, trans.)
    - Education of stakeholders
  - Commit – Create a culture
    - Make automation the rule
    - Centers of excellence

- Measure & Review
  - Supplier management is continuous improvement
  - CoE review sessions to direct resources toward capturing ROI
Questions?
COCKTAILS & NETWORKING
OVERLOOK LOUNGE