VMI: Building a Demand Driven Program to Drive Working Capital Savings

October 2014
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

Universal Transaction Model

UBC's  Re-Usable Implementation Bundles  UBD's

Analytics
- SmartLink Analytics
  - Network Algorithms
  - Predictive Analytics

Applications
- 3rd Party API
- SmartLink Apps
  - Master Data Mgmt.
  - Business Rules

Integration
- QuickLink Network

Discovery
- Process Control Tower
- Benchmarks

Supplier Mgmt.

Sourcing Mgmt.

Logistics Mgmt.

Customer Mgmt.

Partner Connectivity

Transaction Dashboard
One Buyer managing 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?

Plan
- Inventory & Forecast
  - Supply Plan/Order Commitment
  - Inventory Projection and Planning Algorithm

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

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

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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<thead>
<tr>
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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>
<td>76%</td>
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<tr>
<td>Order Response</td>
<td>$0.50</td>
<td>$8.70</td>
<td>94%</td>
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<tr>
<td>Ship Notice</td>
<td>$1.50</td>
<td>$12.46</td>
<td>88%</td>
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<tr>
<td>Invoice</td>
<td>$3.67</td>
<td>$17.77</td>
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<tr>
<td>Total</td>
<td>$9.80</td>
<td>$55.87</td>
<td>82%</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%

VMI Program
Best Practices
Supplier Management Foundation

Elemica Recommended Supplier Management Roadmap

**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

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<tr>
<th>Purchase Order Management</th>
<th>Invoice Management</th>
<th>CoA</th>
<th>Vendor Managed Inventory</th>
<th>Global Supply Management</th>
<th>Slot Booking</th>
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# Supplier Management Foundation

## Elemica Recommended Supplier Management Roadmap

### Procurement Execution

- **Year 1 - 2**
  - Build out standard ordering process
  - 50% of direct material spend automated (Purchase Order Management & Invoice)

### Process Collaboration

- **Year 3**
  - 40% of raw material spend in VMI
  - 10% of raw material spend in VM(O)I
Segmentation is key

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
Segmentation is key

Procurement Execution Process for Strategic Segment

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

- **High** Profit Impact
- **Low** Profit Impact
- **Low** Supply Risk
- **High** Supply Risk

**Sup Segments**
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?