

BSO GLOBAL OPERATIONS WEBCAST

Strategy & Supply Chain

November 2021

RSM company overview



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Presenters

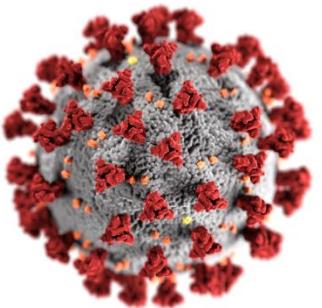
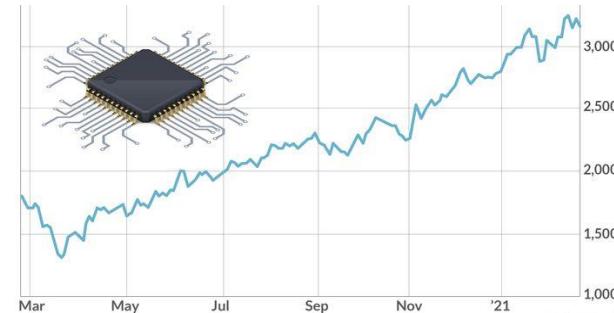


Matt Dollard
Director
Strategy Lead, Industrials Analyst
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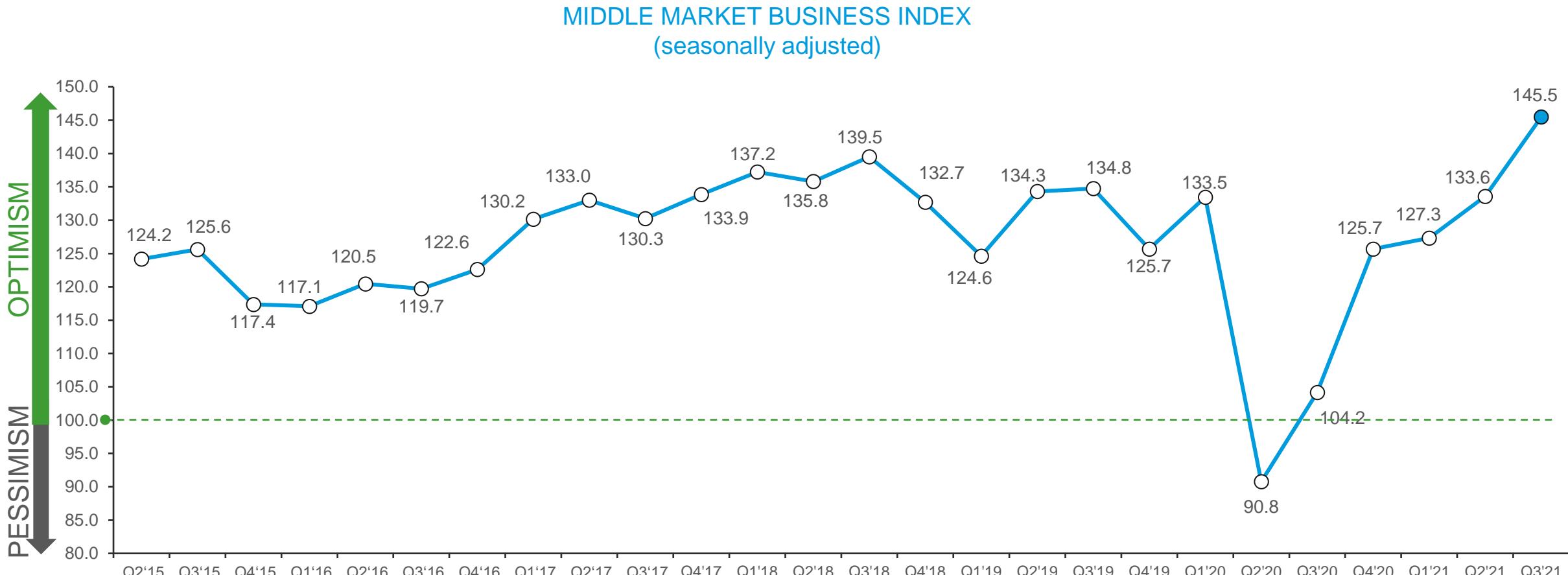


Bart Huthwaite
Principal
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Supply chain disruptions

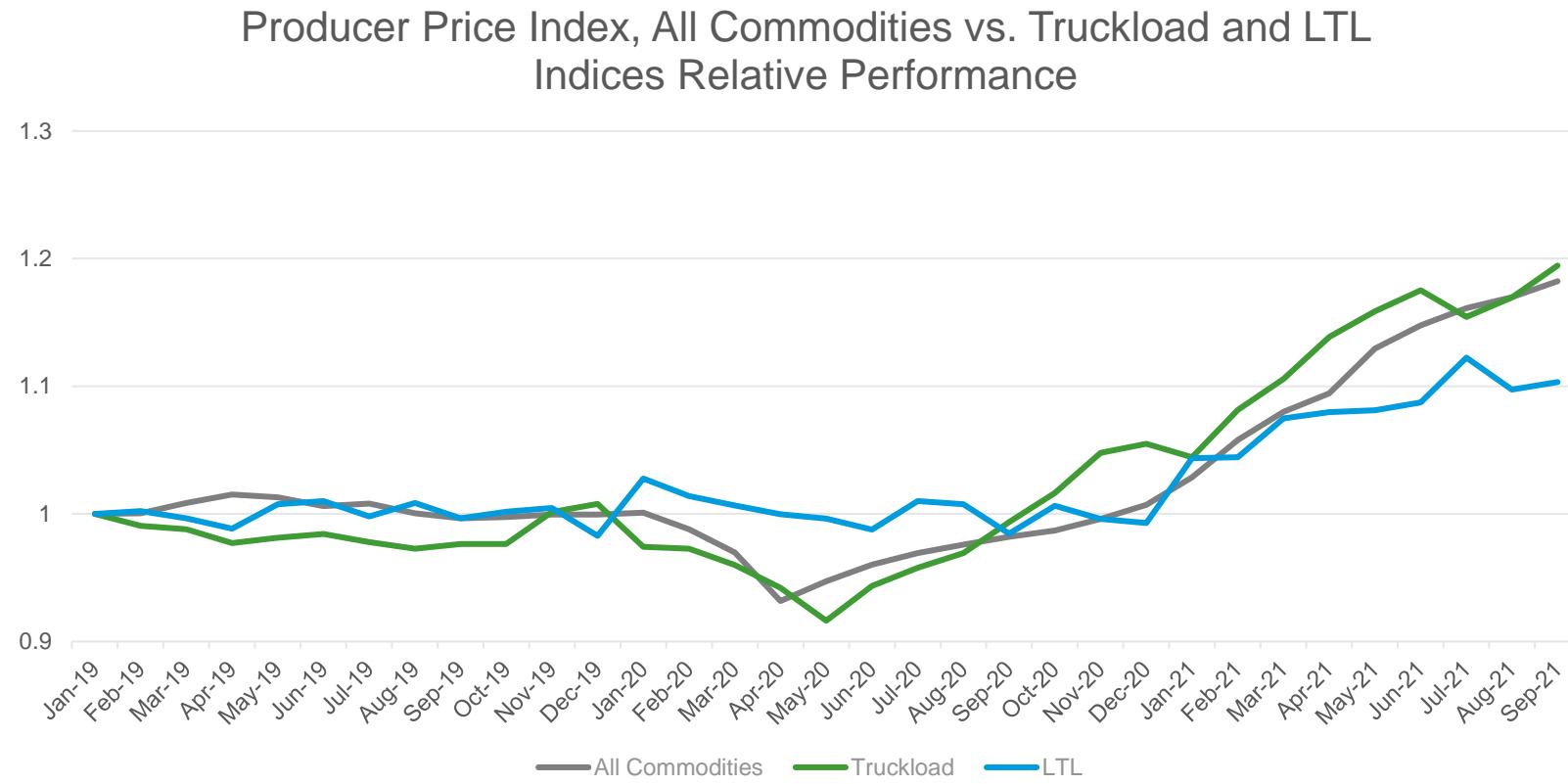


The RSM US Middle Market Business Index Posts All Time High in Q3'2021



Producer Price Index

Lack of supply around the world leads to higher cost to produce and higher selling prices



Source: Federal Reserve Bank of St. Louis and US., RSM US

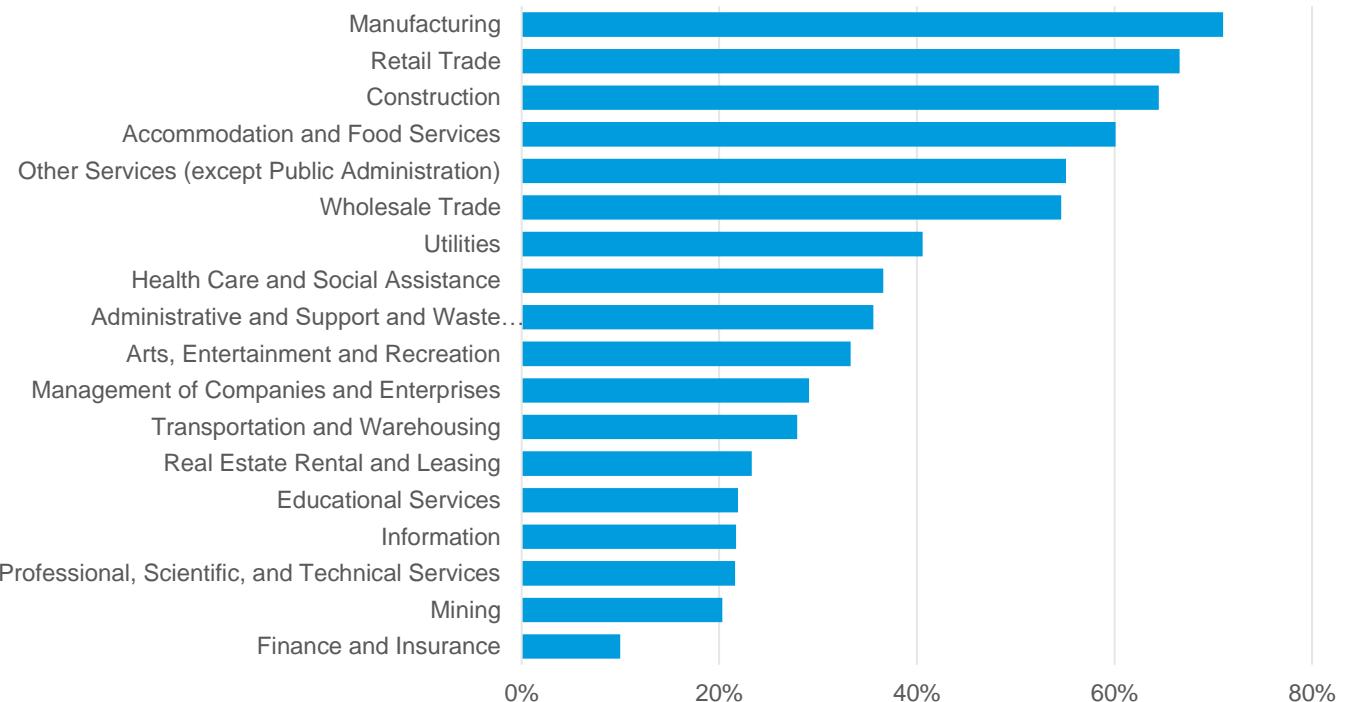
Over the last 12 months, producer price index increased by 20.4%, 20.2% and 12.1% for all commodities, truckload and LTL, respectively

Supplier delays

Material shortage caused by supplier delays for companies who were not prepared for variability in their supply with proper inventory parameters



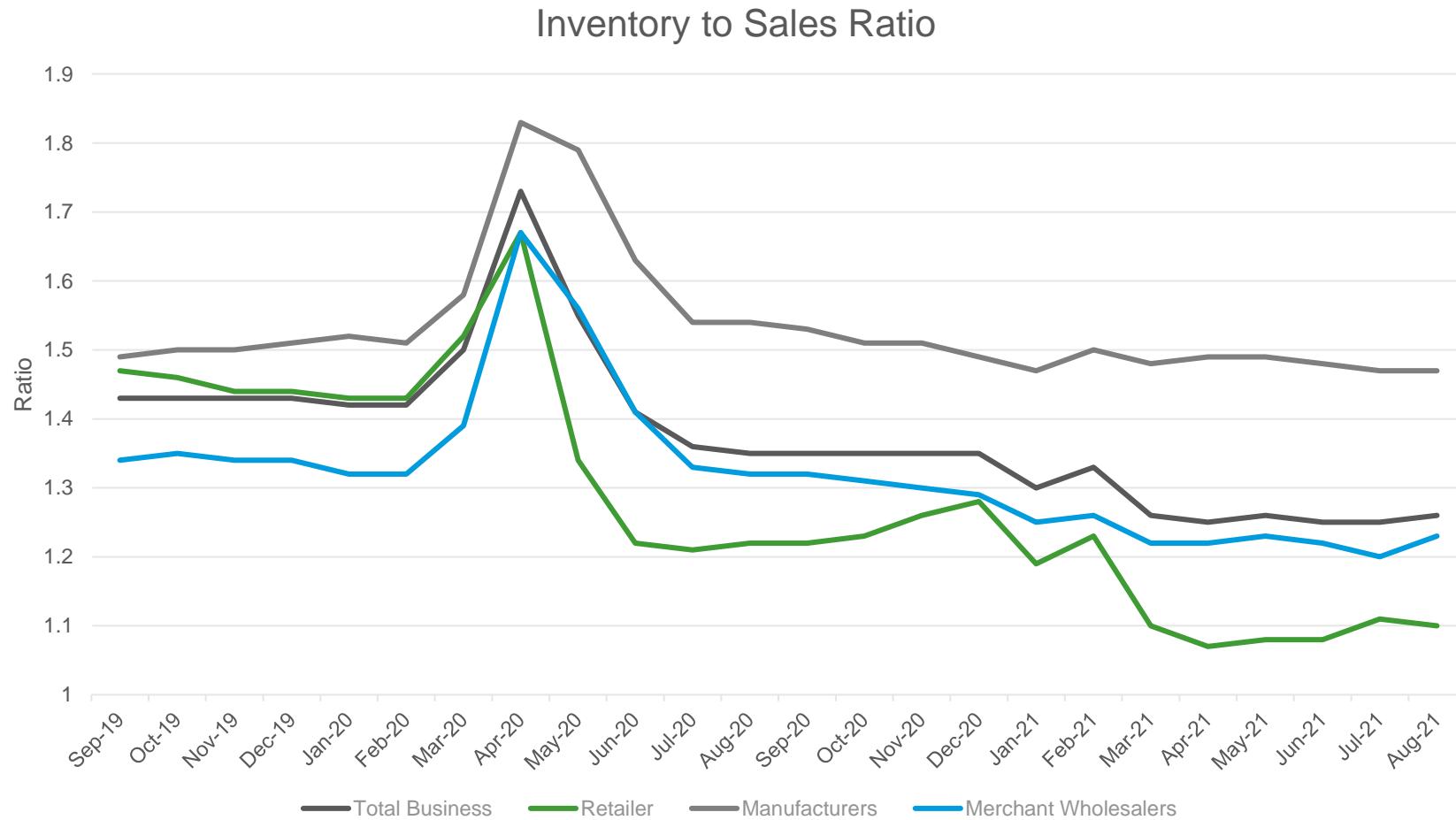
Supplier Delays by Sector



Source: US Census Bureau (Data Time Period: 9/27/21-10/3/21), RSM US

Inventory shortages

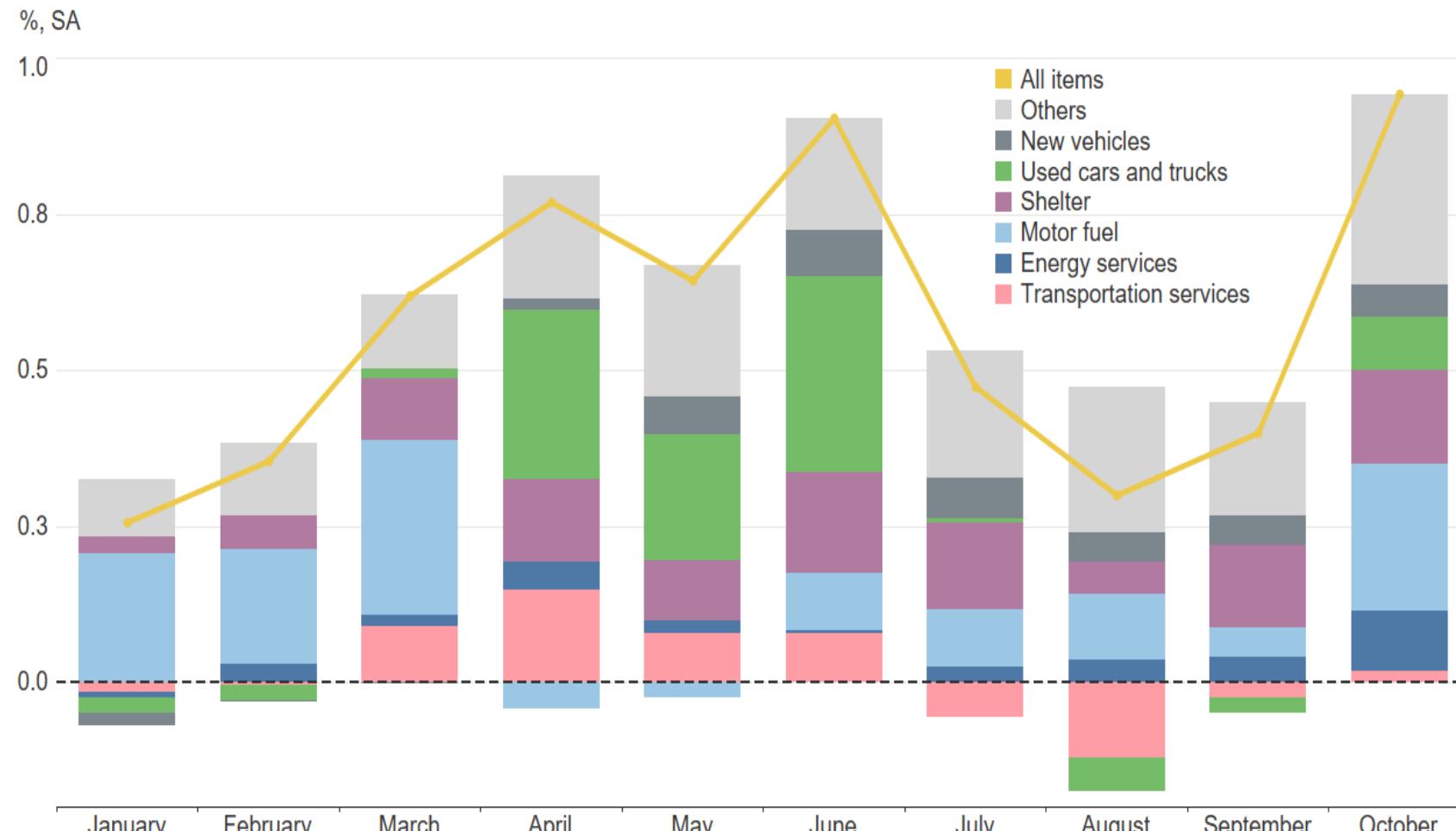
Declining inventory to sales ratio indicates companies are struggling to keep up with their demand



Source: Federal Reserve Bank of St. Louis and US., RSM US

Consumer Price Index

Main sub-component contributors to monthly CPI change in 2021



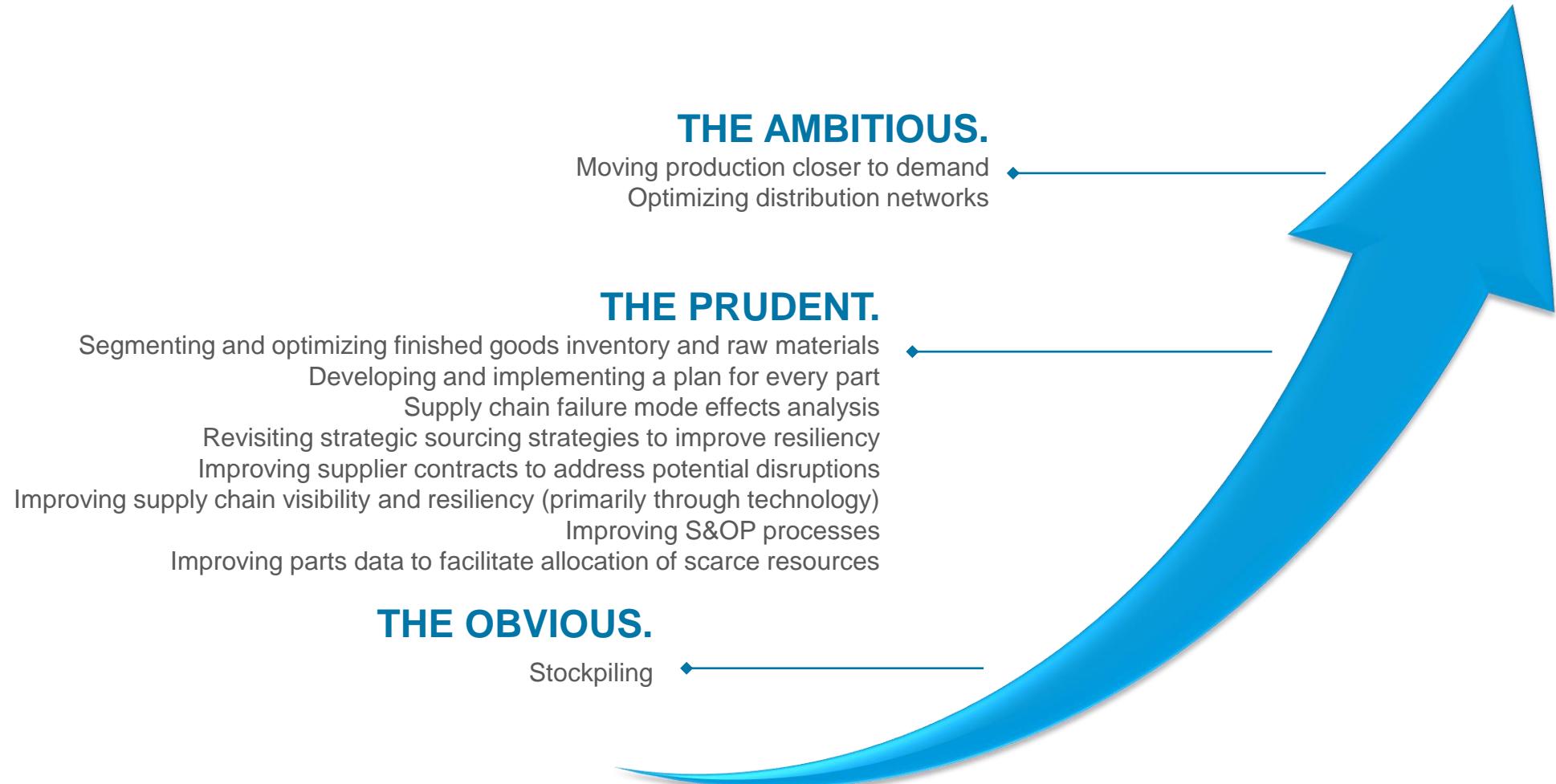
Source: BLS, RSM US

Poll question #1

What are your company's supply chain challenges in the past year?

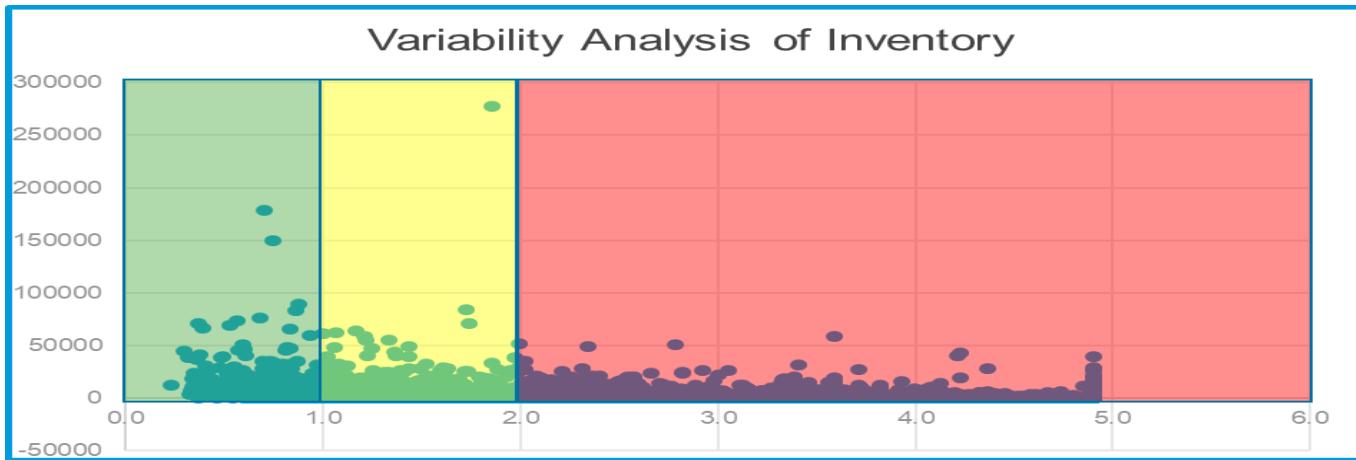
- A. Supply shortages and out of stock
- B. Rising material and transportation cost
- C. Demand fluctuation
- D. All of the above
- E. Others

What are other companies doing?



ABC – XYZ Inventory segmentation

Segment inventory based on value and demand variability



Definition

	X (Stable)	Y (Reactive)	Z (Erratic)
A	High Consumption Value Even Demand Reliable Forecasts	High Consumption Value Predictably Variable Demand Less Reliable Forecast	High Consumption Value Sporadic, variable demand Forecasting unreliable or impossible
B	Medium Consumption Value Even Demand Reliable Forecasts	Medium Consumption Value Predictably Variable Demand Less Reliable Forecast	Medium Consumption Value Sporadic, variable demand Forecasting unreliable or impossible
C	Low Consumption Value Even Demand Reliable Forecasts	Low Consumption Value Predictably Variable Demand Less Reliable Forecast	Low Consumption Value Sporadic, variable demand Forecasting unreliable or impossible

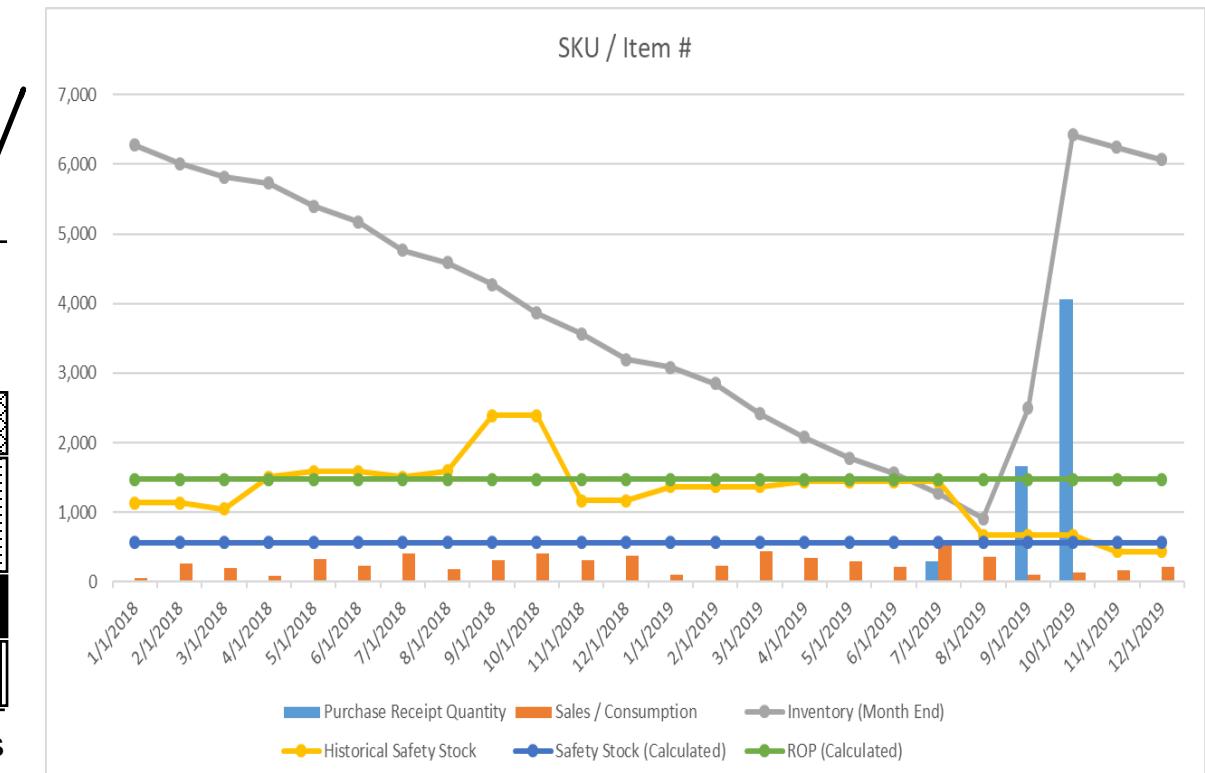
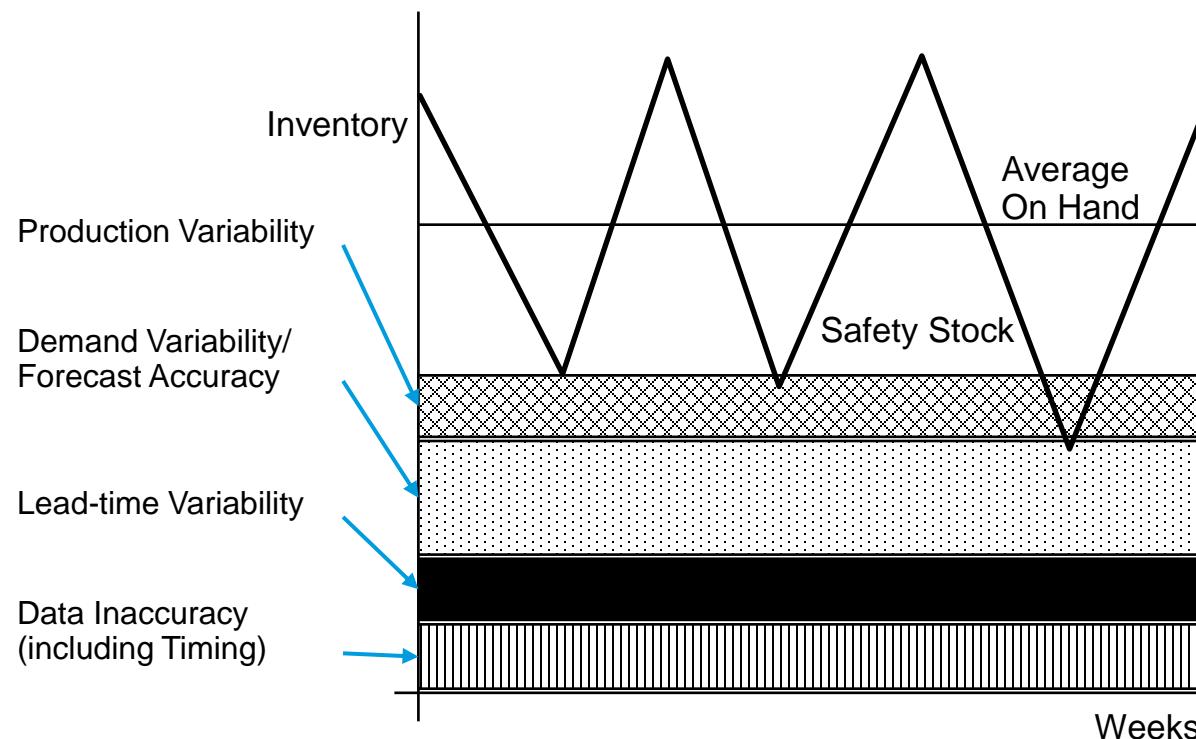
Example

	Stable (CV < 1 & Prob >90%)	Reactive (CV >1 & Prob >70%)	Erratic (CV >1 & Prob <50%)
	X (Stable)	Y (Reactive)	Z (Erratic)
A	SKUs=141 Inv Value=\$2,604,788 24M Revenue=\$35,077,326	SKUs=43 Inv Value=\$611,665 24M Revenue=\$10,221,646	SKUs=9 Inv Value=\$195,379 24M Revenue=\$1,957,421
B	SKUs=272 Inv Value=\$2,194,772 24M Revenue=\$22,547,660.	SKUs=187 Inv Value=\$1,564,651 24M Revenue=\$14,614,660	SKUs=90 Inv Value=\$670,863 24M Revenue=\$6,445,401
C	SKUs=202 Inv Value=\$969,591.02 24M Revenue=\$7,930,971	SKUs=480 Inv Value=\$2,026,425 24M Revenue=\$15,433,109	SKUs=513 Inv Value=\$1,953,401 24M Revenue=\$13,284,482

Source: AICPA, cgma.com

Optimize inventory by segment

Use triple play analysis to display the historical demand, supply and inventory trend for each material and finished good.



Update inventory planning parameters



Product Information

Part Number
Part Description
ABC-XYZ Categorization
Desired Service Level



Demand

Historical Demand
Forecasted Demand
Sales Forecast



Material Cost

Unit Cost
Order Cost
Inventory Carrying Cost
Stock Out Cost



Lead Time

Cycle Time
Factory Lead Time
Manufacturing Variability
Supplier Lead Time
Supplier Variability



Product Parameters

Safety Stock
Reorder Point
Minimum Order Quantity
Order Policy Quantity
Economic Batch Quantity
Economic Order Quantity

Poll Question #2

How often is your company updating your inventory parameters?

- A. Quarterly
- B. Semi Annually
- C. Annually
- D. Haven't updated since system implementation

Leveraging the value of PFEP



What is a Plan for Every Part (PFEP)?

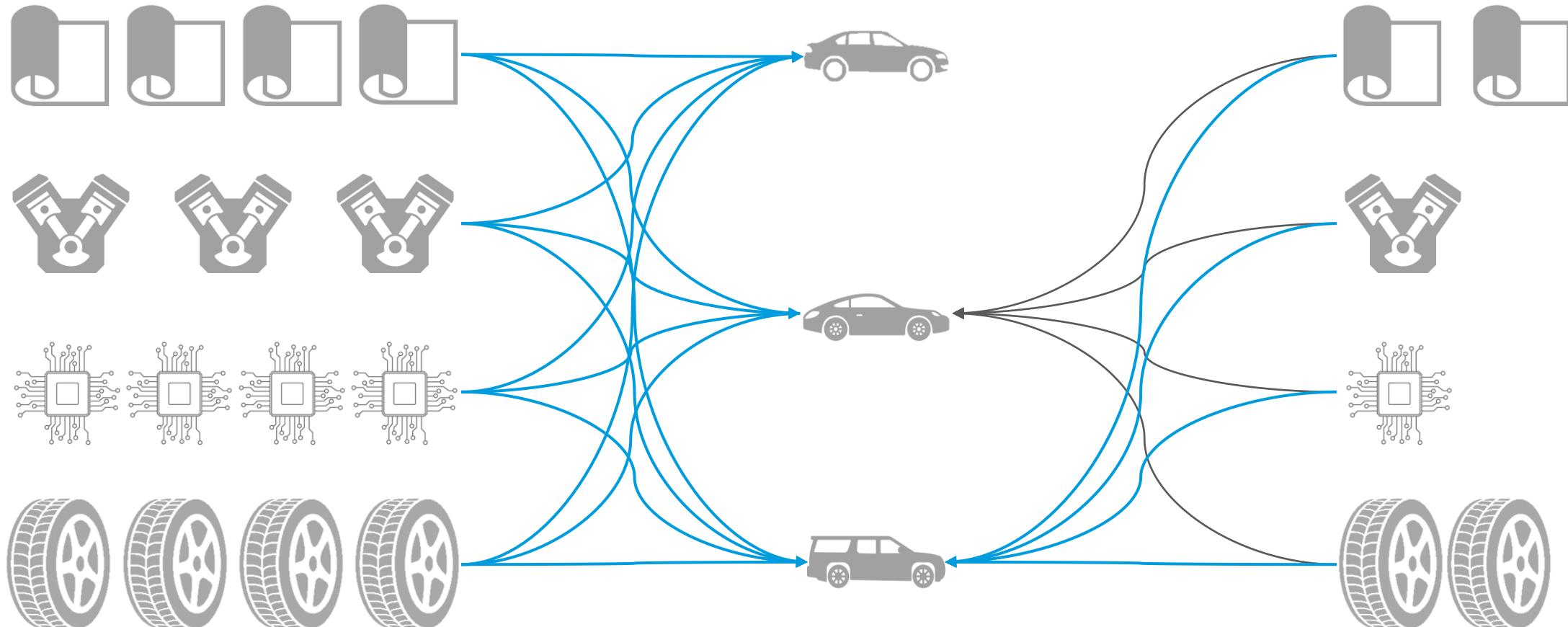
A material flow plan that includes data on every part coming from suppliers and every finished good going to customers.

Plan For Every Part

Product Information		Demand		Inventory Parameters		Supplier		Packaging and Logistics	
Part Number	Unit Cost	Usage Per Assembly	Hourly Usage	Order Frequency	Minimum Order Quantity	Supplier Name	Supplier City	Package Type	Carrier
Part Description	Order Cost	Daily Usage	Containers Used Per Hour	Economic Batch Quantity	Economic Order Quantity	Supplier State	Supplier Country	Package Weight	Transit Time
ABC-XYZ Classification	Inventory Carrying Cost	Usage Location	# of Cards in Loop	Safety Stock	Reorder Point	Supplier Performance	Supplier Lead Time	1 Part Weight	Transit Time Variability
Current Inventory	Stock Out Cost			Order Policy Quantity		Supplier Variability		Total Package Weight	Standard Package Quantity
Effective Start Date	Storage Location							Packaging Length	Shipment Size
Effective End Date								Packaging Width	Shipment Frequency
								Packaging Height	

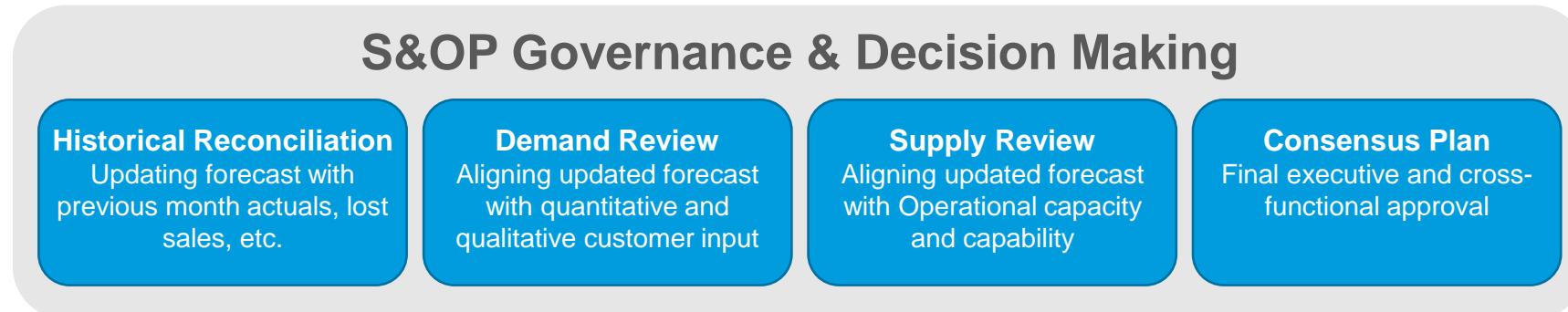
Material allocation

During supply shortage, allocate materials to high revenue and margin products.



S&OP Building blocks

The foundational activities below enable the S&OP Process through linking critical inputs via collaboration



Suppliers

Demand Management

Product Innovation

Product Lifecycle Management

Brand Management

Pricing & Promotion

Demand Planning

Supply Management

Inventory Planning

Supply Chain Planning

Raw Materials

Capacity

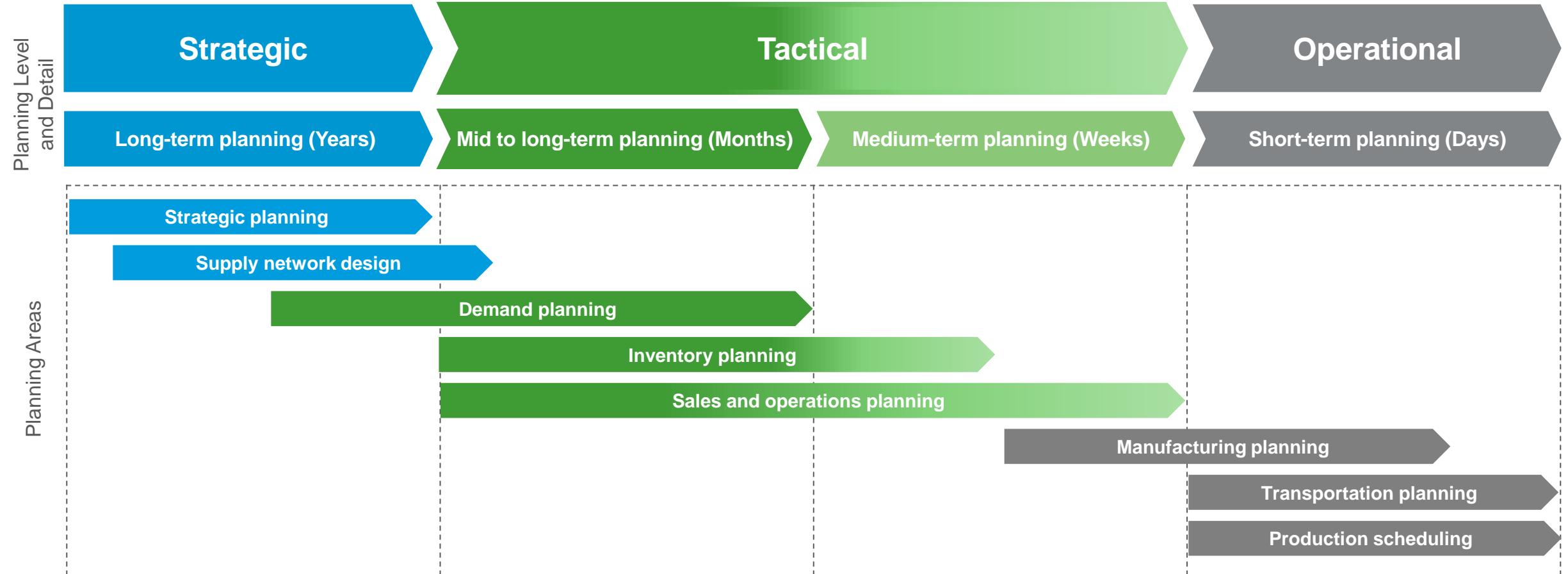
Production

Production Planning and Scheduling

Customers

S&OP Planning horizons

Leverage multiple planning horizons to align supply with demand from the strategic to the tactical



Re-sourcing

Market Trends

- Global supply chain disruption from supply shortages and trade wars
- Re-sourcing global sourcing to regional sourcing
- Bring operations closer to customers to mitigate risk

Sourcing Considerations

Past

- Piece Price
- Transportation

Present

- Total Landed Cost
- Custom Duty
- Tariff
- Risk
- NAFTA Content

Regional Sourcing Benefits

- Less inventory
- More frequent deliveries
- Reduce and stabilize lead time
- Reduce cost (transportation, custom duty, taxes)

Poll Question #3

Has your company started planning to protect itself from future risks and variation in the economy?

- A. Yes, started a while ago
- B. Starting to think about it and took some action
- C. Starting to think about it but have not done anything
- D. Have not thought about it



STRATEGY DEVELOPMENT



Are we asking the right questions?

Are we asking the right questions?

Client example #1: Global franchise business

Identify the most important issue that if solved, would satisfy an objective

1

Strategy



Create a consistent
global customer
experience

Objective



Implement
operational IT system
with 3rd parties



Benefits



Standardized
customer
experience



Data Insights



New
revenue

2

Issue



First two roll outs not a success



CLIENT'S ORIGINAL
problem statement

*"We need a checklist to
localize our IT system with 3rd
parties in 20+ countries"*

3

NEW problem statement

*"What process should we
follow to enable a frictionless
repeatable roll out?"*



Client Outcome

1. Created a global playbook
2. Two country pilot



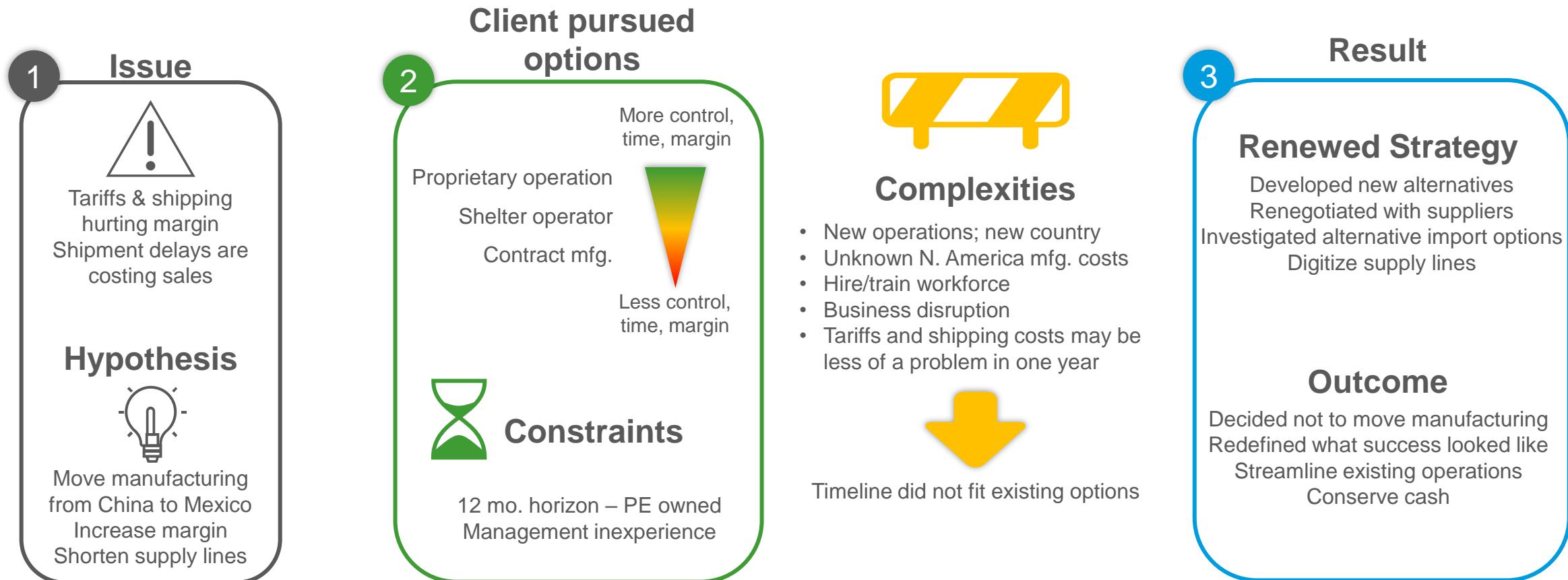


Acknowledge the complexity of
the problem

Acknowledge The Complexities

Client example #2: Supplier of spa and exercise equipment

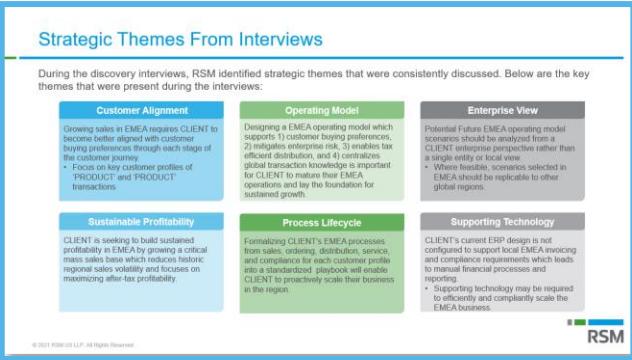
Review, discover, inquire, analyze from multiple perspectives



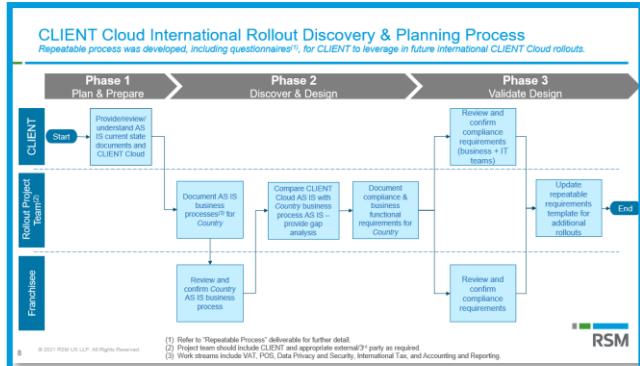
Acknowledge The Complexities

Strategic Lens

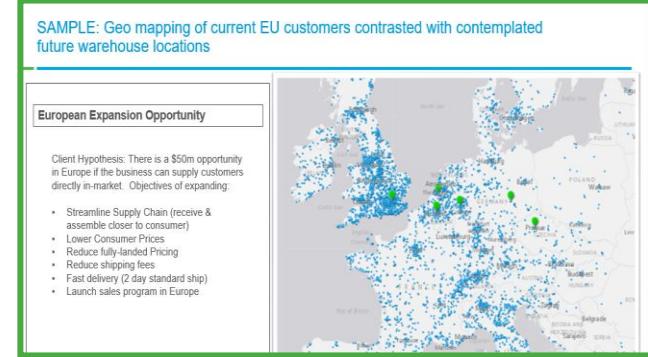
Interview Key Themes



Process Flow



Customer Geo Mapping



Market Prioritization Framework





Is the leadership team aligned?

Is the leadership team aligned?

Client Example #3 – Global Food Manufacturer

1 Issue

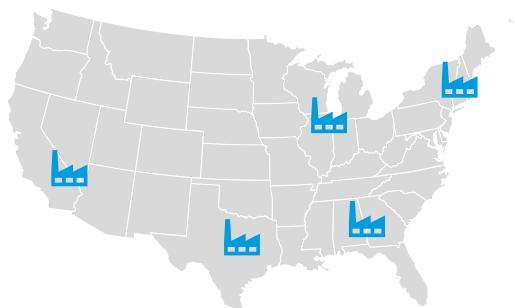
Where to locate new EU mfg. facility?

Context

High UK mfg. costs
BREXIT – anxious customers
Proximity to customers & supply

2 attempts; 3 Years; no decision

Management was stuck



2

Get agreement on what matters beforehand

Importance

Higher

Lower

Supply chain proximity and capacity
End market proximity
Labor force
Infrastructure
Business environment
Business case – financial/non-financial

3

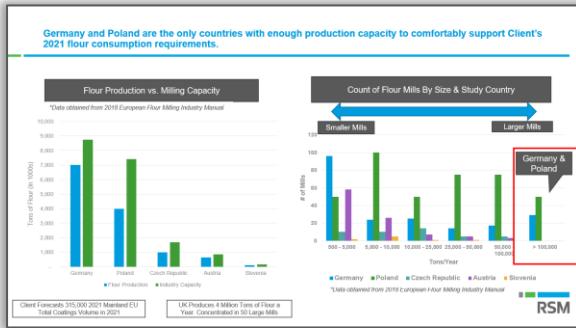
Outcome

Management alignment
Project acceleration - 7wks
Clear path forward

Is the leadership team aligned?

Client Example #3 – Global Food Manufacturer

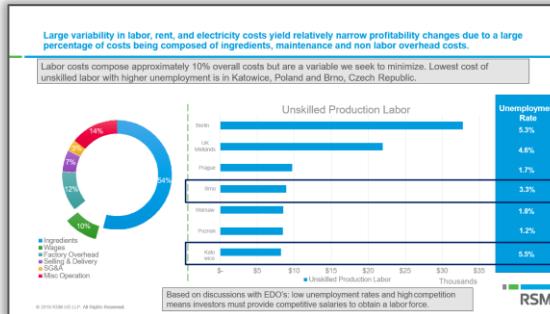
SC production capacity



SC production proximity



Labor force analysis



2 Get agreement on what matters beforehand

Importance

Higher

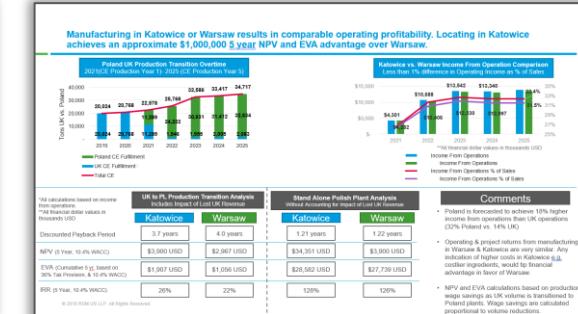
Lower

Supply chain proximity and capacity
End market proximity
Labor force
Infrastructure
Business environment
Business case – financial/non-financial

Infrastructure



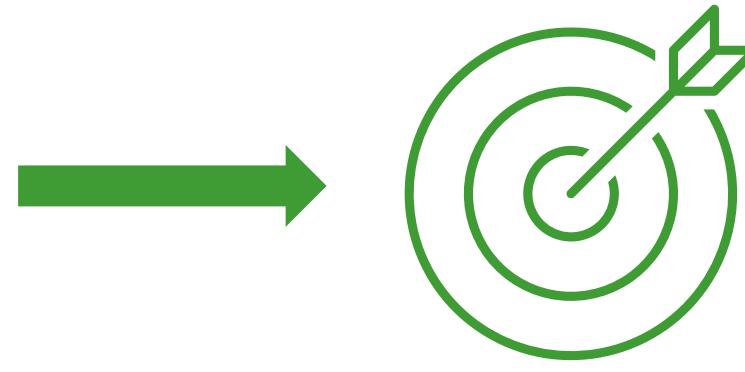
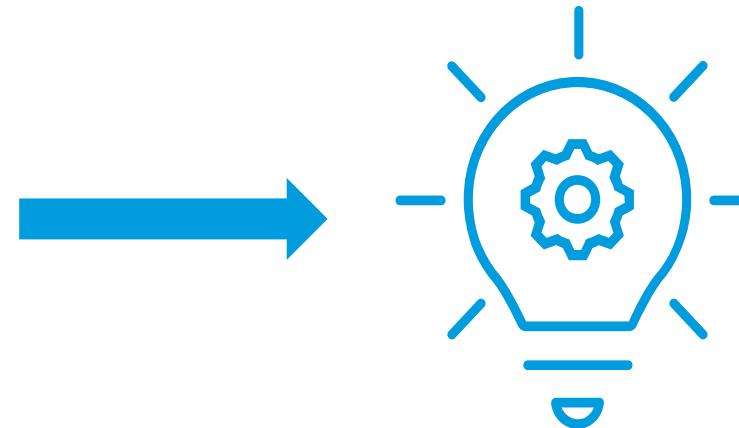
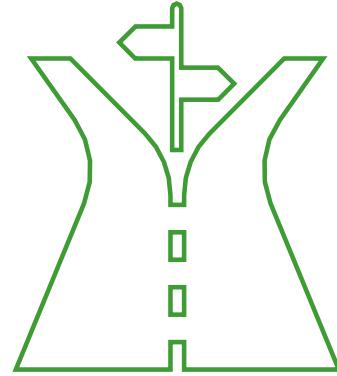
Financial business case





How will we decide?

How will we decide?



Create a decision framework

Overall guiding principles include:
Financial hurdles
Company values and mission
Company's goals/aspirations

Analyze the options against the framework

Options to be analyzed:
Business Constraints
Time/Resources
People/Money

Decide and plan

Sequence projects on a roadmap and create execution plans with owners

How will we decide?

Client Example #4: International e-commerce business

Issue: Non-U.S. customers were loyal; would spend more if shipping costs were lower and more predictable and if shipments arrived sooner.

1 Project



"We need an EU distribution center"

2 Options Analyzed



3PL
Owner managed

3 Findings

Do owner managed DC but...

Increase sales to justify investment

Decision

Expand loyalty program

Double ad spend

Charge a little less on shipping

Do DC later

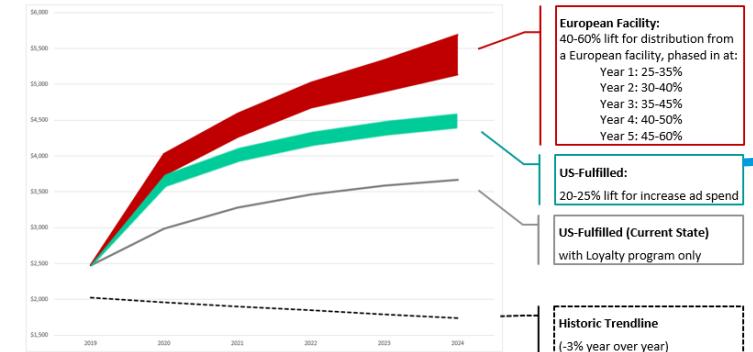
Forecast 20-25% ↑ key markets

Strategic Planning

European Expansion: Sales Forecast Base Model

Graph represents the two scenarios from previous slide compared to the "current state", which is fulfillment from HQ with effect of only and the historic trendline for reference.

The current state model is based on 12 weeks of loyalty program impact on the United Kingdom.



Actual

14-30%
increase
within 3 months

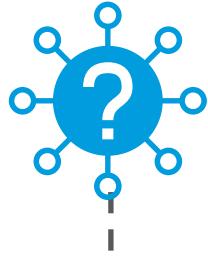


Pulling it all together

Pulling it all together

How to strategize through strategic challenges with senior leaders

- 1 Ask the right questions, create a problem statement



- 2 Acknowledge the complexity



- 3 Align leadership



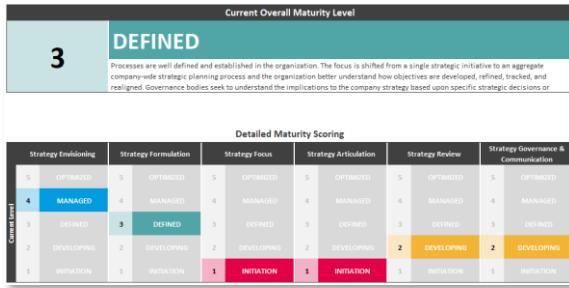
Decision type:
Infrequent
Big ticket
Future defining
High risk

- 4 Decide, plan, execute

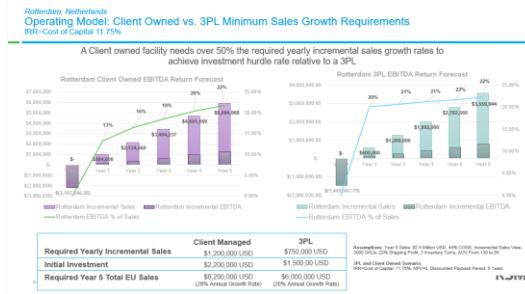


Example frameworks

Strategy maturity assessment



Business case

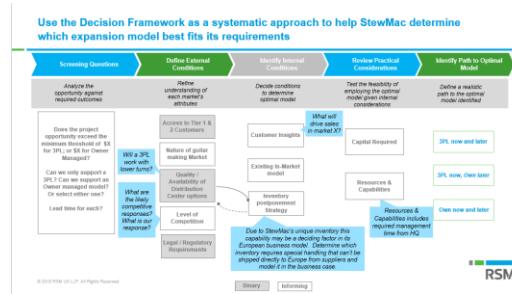


Lower

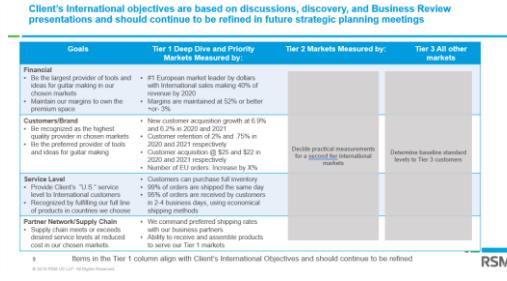
Facilitate workshops



Decision model



Formulate Goals



Planning, Execution



Alignment, certainty, clarity, action oriented

Poll Question #4

Since the COVID-19 pandemic the most important priority for us is:

- A. Re-imagining go-to-market sales models and processes
- B. Improving supply chain resiliency and transparency
- C. Increasing prices due to rising input costs
- D. Moving production or distribution center(s) closer to demand
- E. None of the above



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