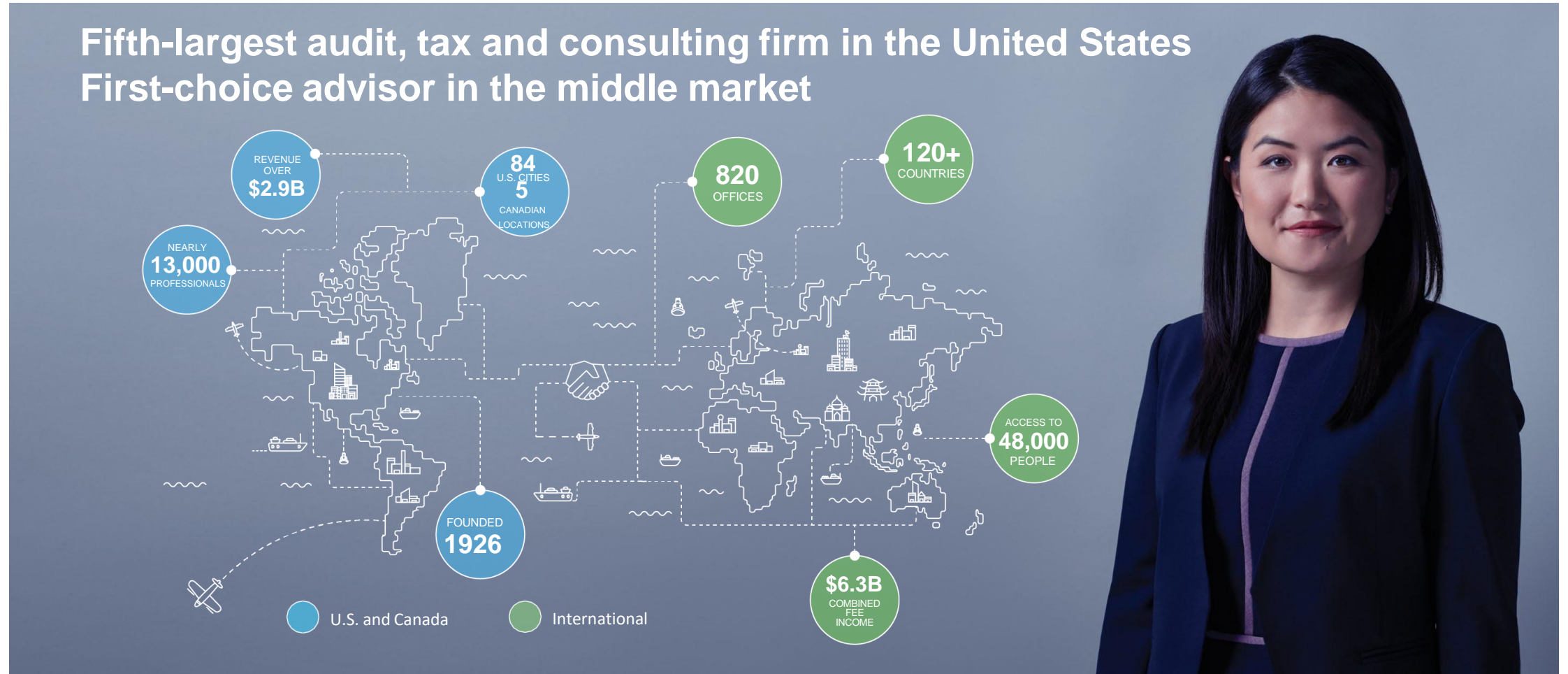


BSO GLOBAL OPERATIONS WEBCAST

Strategy & Supply Chain

November 2021

RSM company overview



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Presenters



Matt Dollard
Director

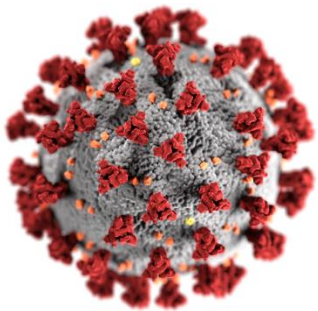
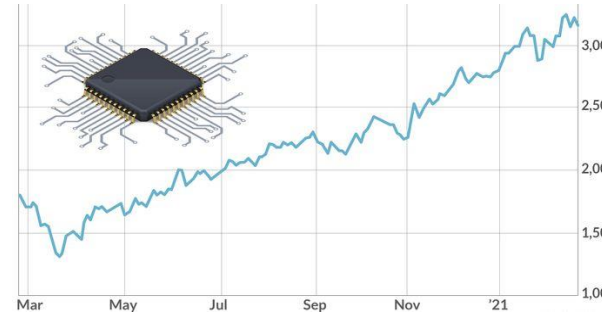
Strategy Lead, Industrials Analyst
Management Consulting
Chicago, IL



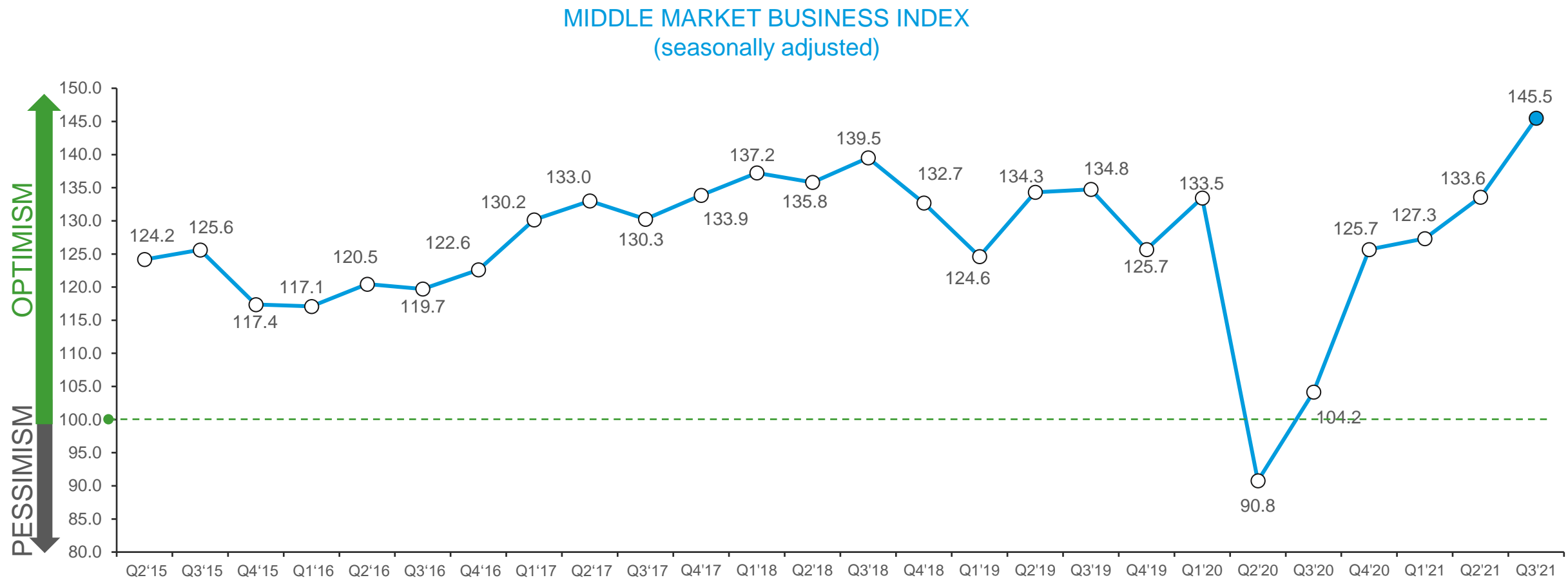
Bart Huthwaite
Principal

Operations & Supply Chain
Management Consulting
Detroit, MI

Supply chain disruptions



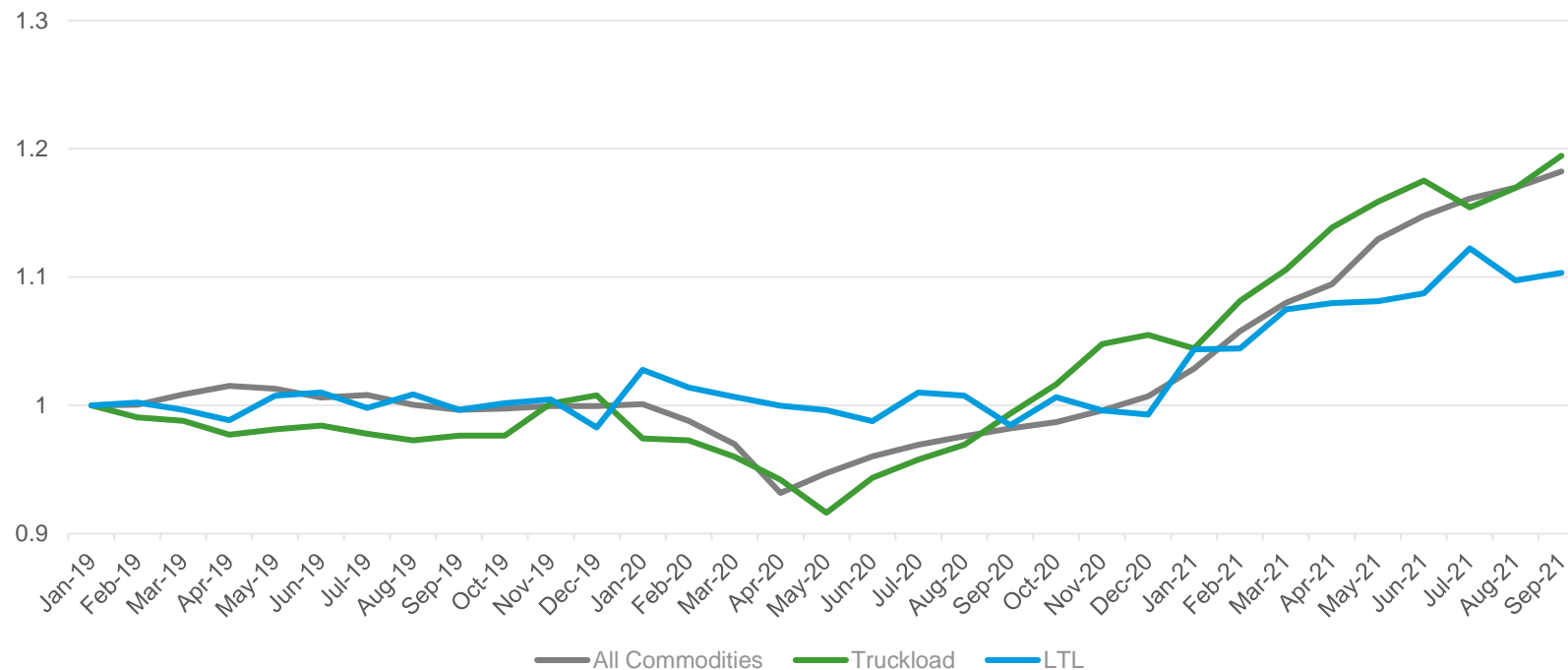
The RSM US Middle Market Business Index Posts All Time High in Q3'2021



Producer Price Index

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

Producer Price Index, All Commodities vs. Truckload and LTL
Indices Relative Performance



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

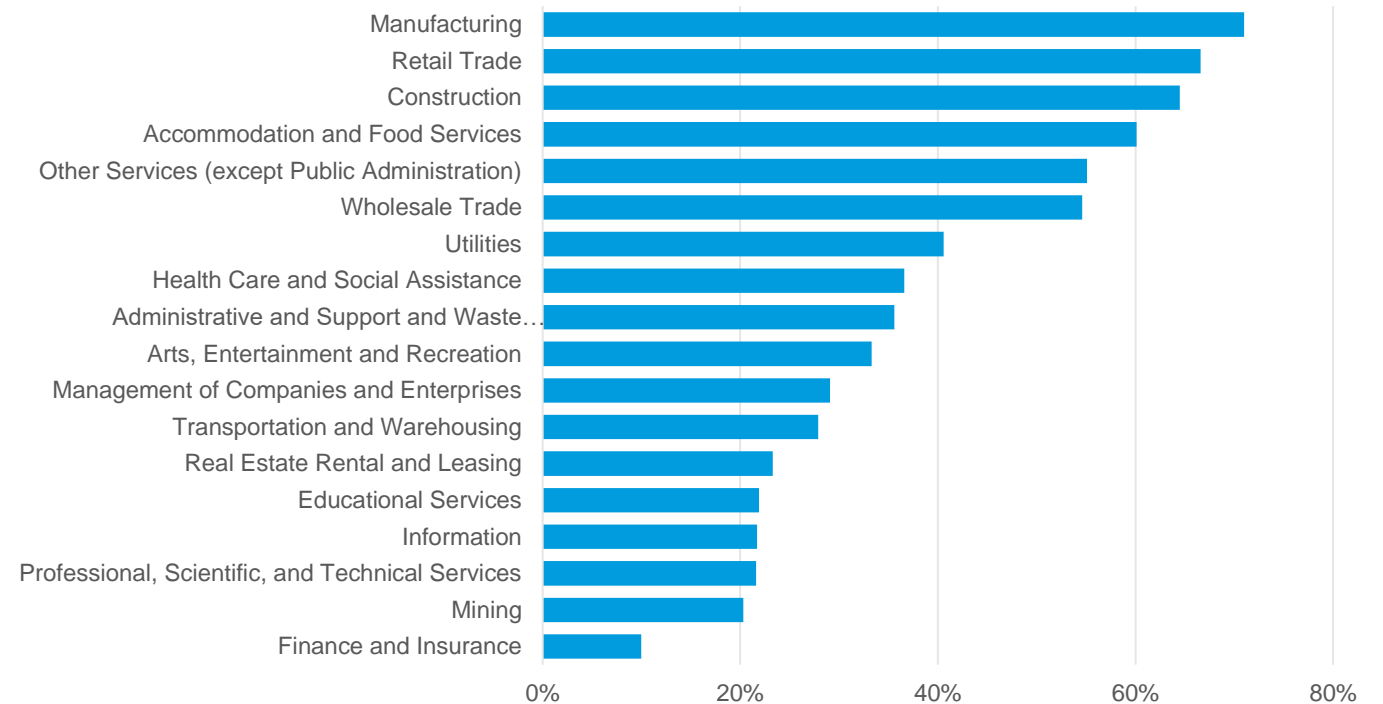
Over the last 12 months, producer price index increased by 20.4%, 20.2% and 12.1% for all commodities, truckload and LTL, respectively

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

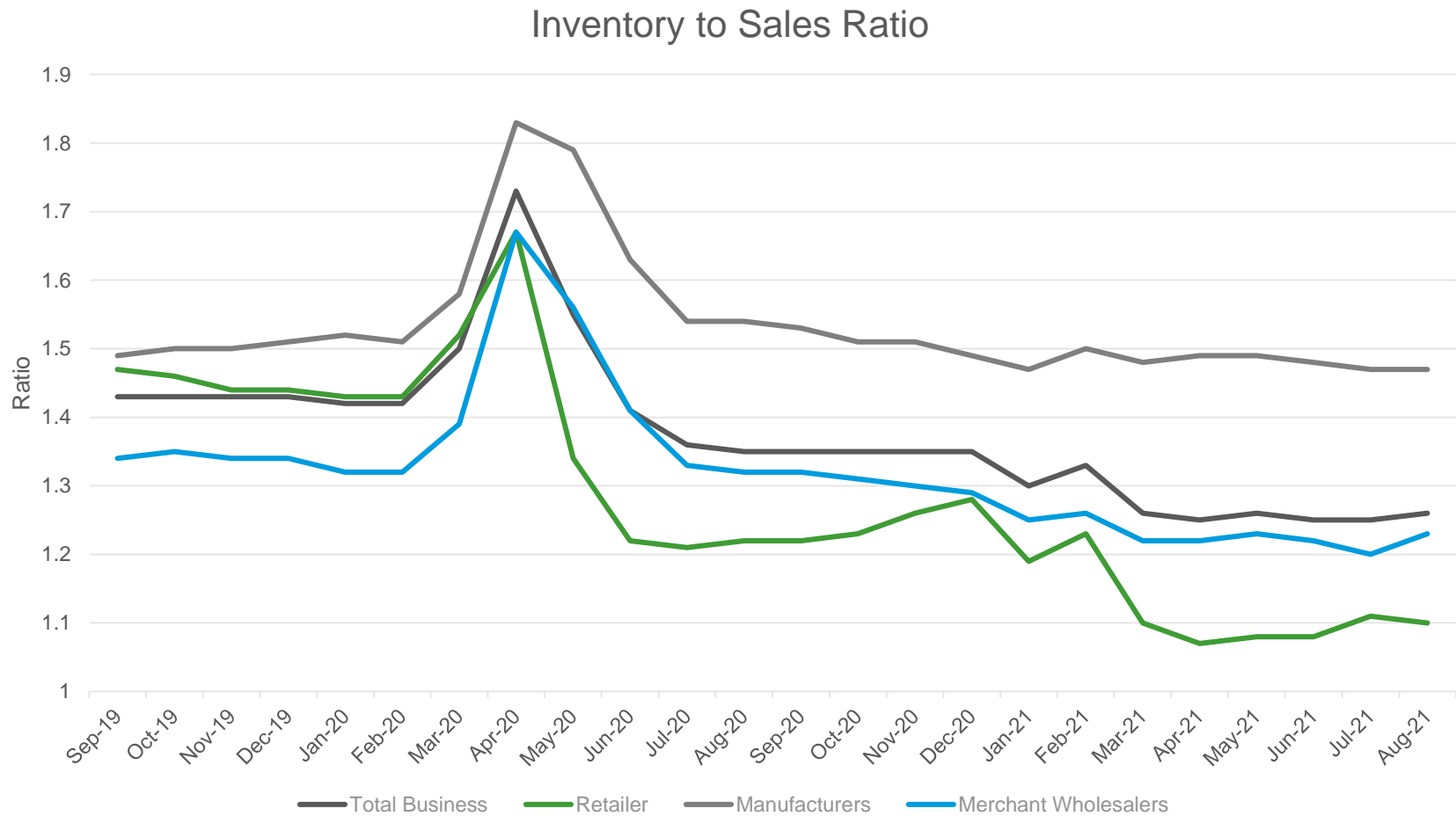


Source: US Census Bureau (Data Time Period: 9/27/21-10/3/21), RSM US



Inventory shortages

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

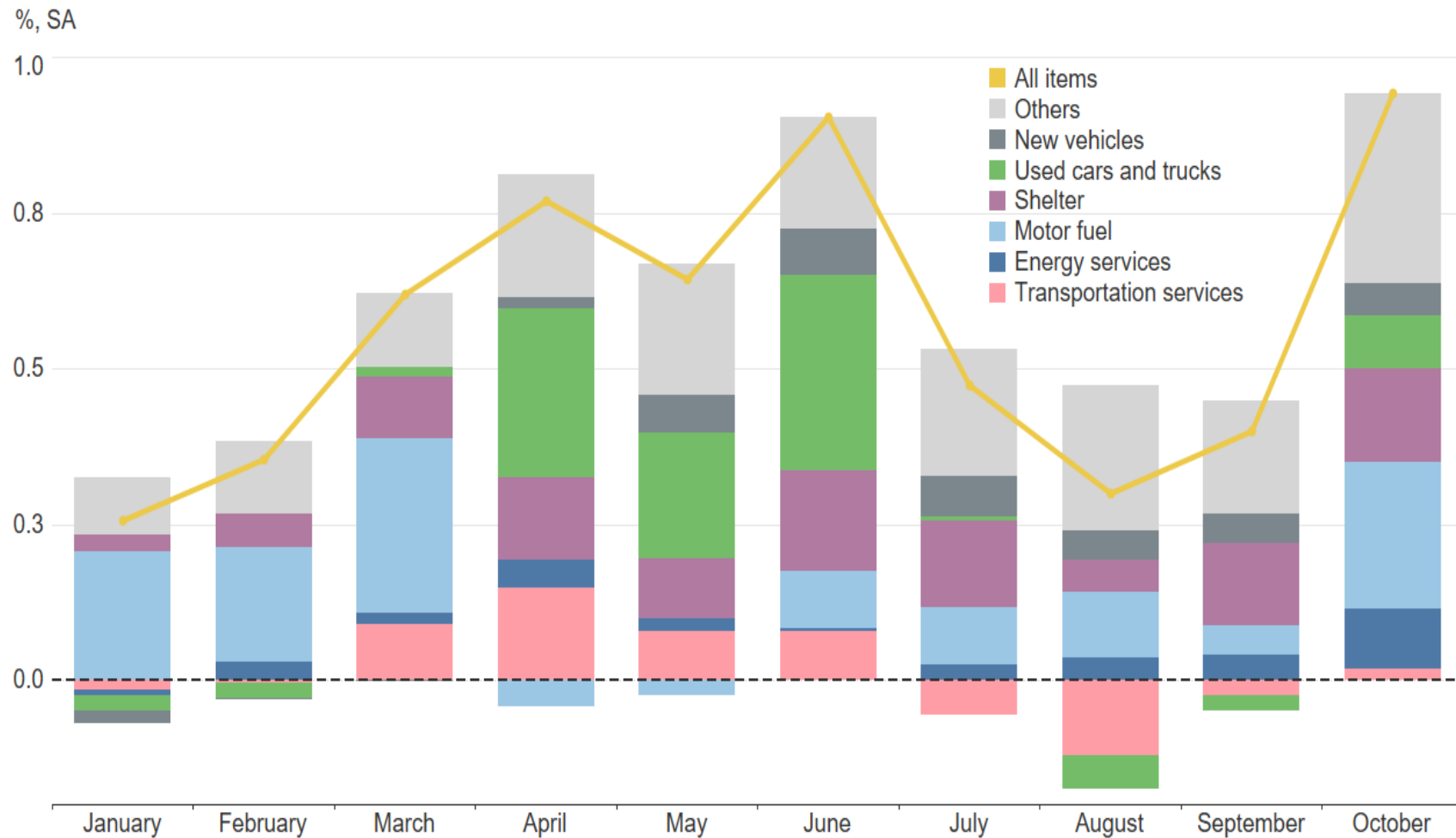


Source: Federal Reserve Bank of St. Louis and US., RSM US



Consumer Price Index

Main sub-component contributors to monthly CPI change in 2021



Poll question #1

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

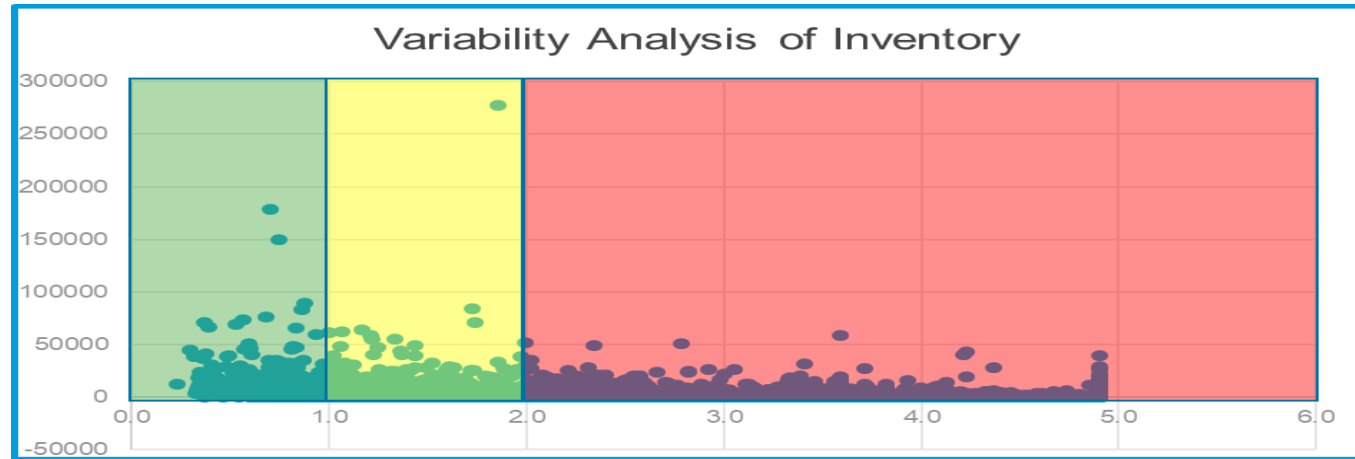
- A. Supply shortages and out of stock
- B. Rising material and transportation cost
- C. Demand fluctuation
- D. All of the above
- E. Others

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

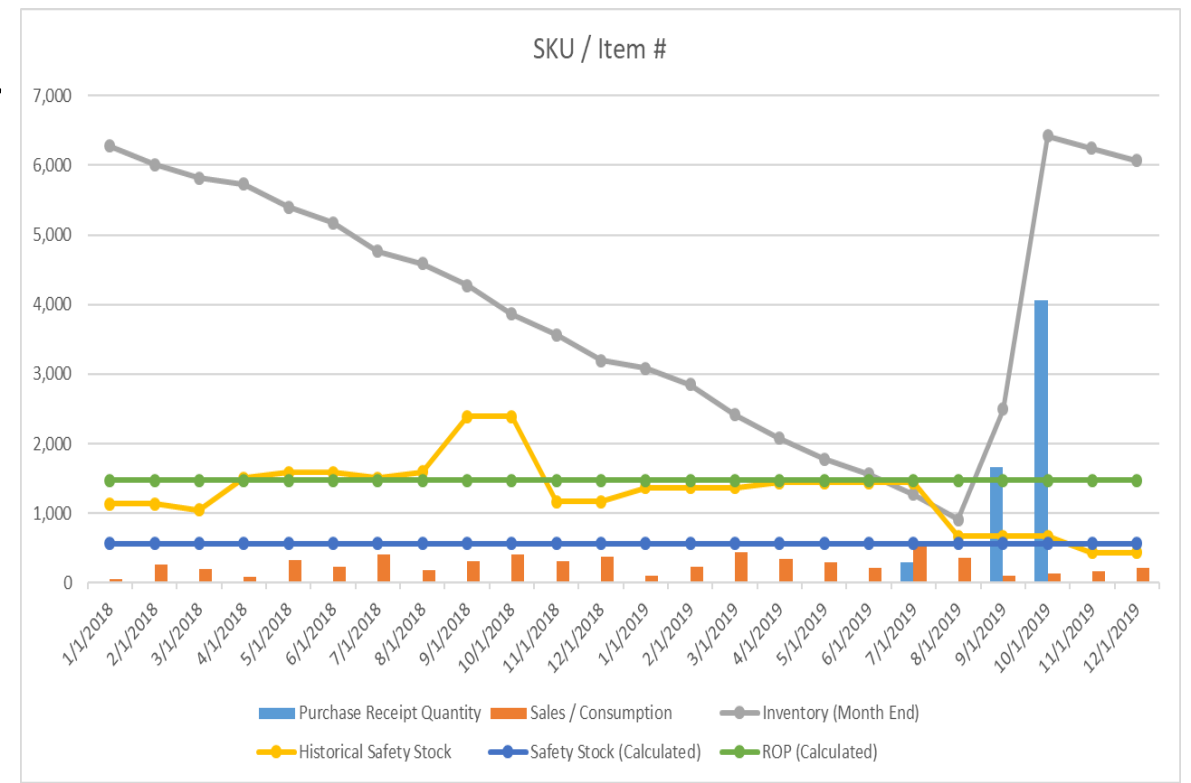
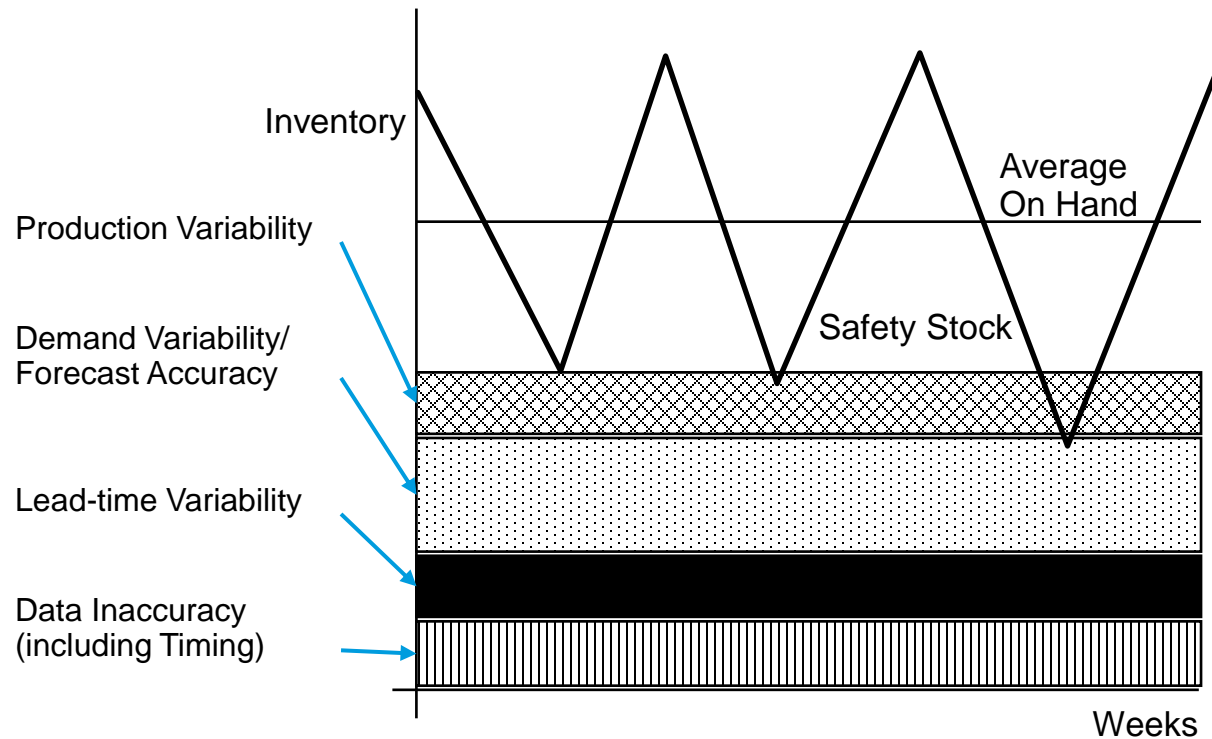
Example

	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

Part Number	Unit Cost
Part Description	Order Cost
ABC-XYZ Classification	Inventory Carrying Cost
Current Inventory	Stock Out Cost
Effective Start Date	Storage Location
Effective End Date	

Demand

Usage Per Assembly
Hourly Usage
Daily Usage
Containers Used Per Hour
Usage Location
of Cards in Loop

Inventory Parameters

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

Supplier

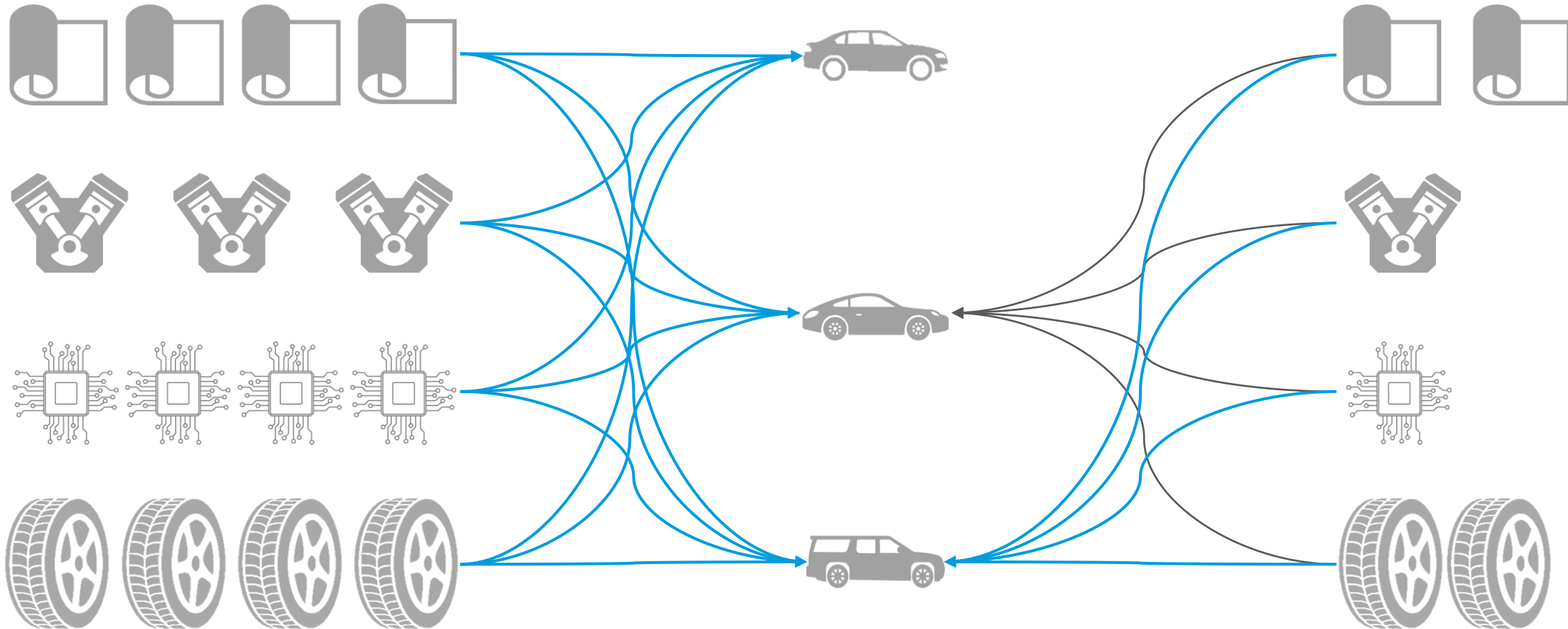
Supplier Name
Supplier City
Supplier State
Supplier Country
Supplier Performance
Supplier Lead Time
Supplier Variability

Packaging and Logistics

Package Type	Carrier
Package Weight	Transit Time
1 Part Weight	Transit Time Variability
Total Package Weight	Standard Package Quantity
Packaging Length	Shipment Size
Packaging Width	Shipment Frequency
Packaging Height	

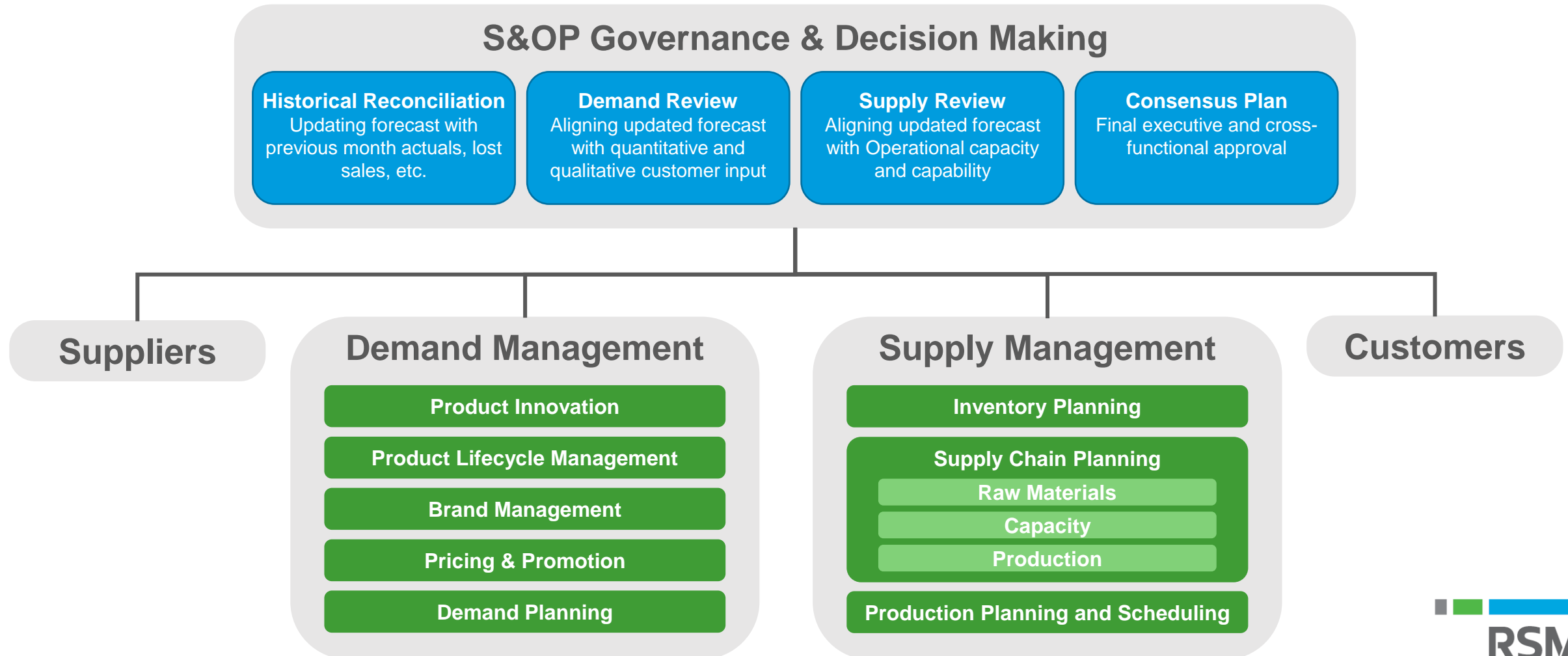
Material allocation

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



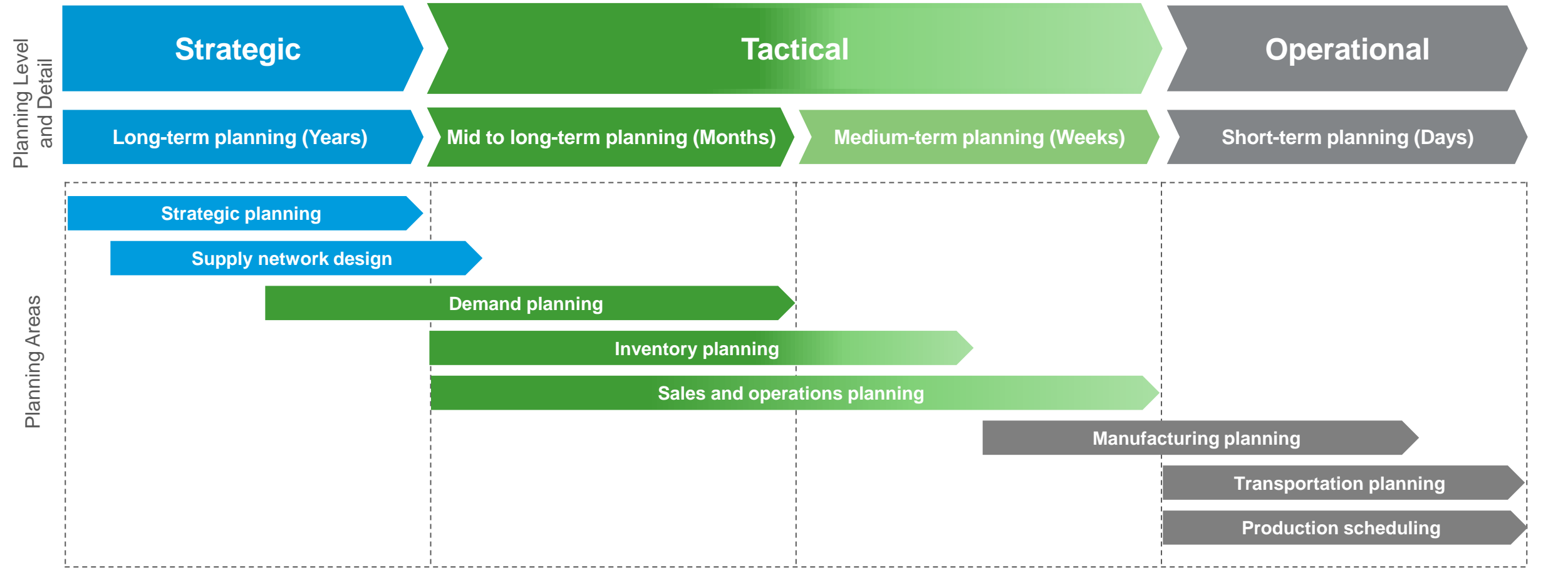
S&OP Building blocks

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



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

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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



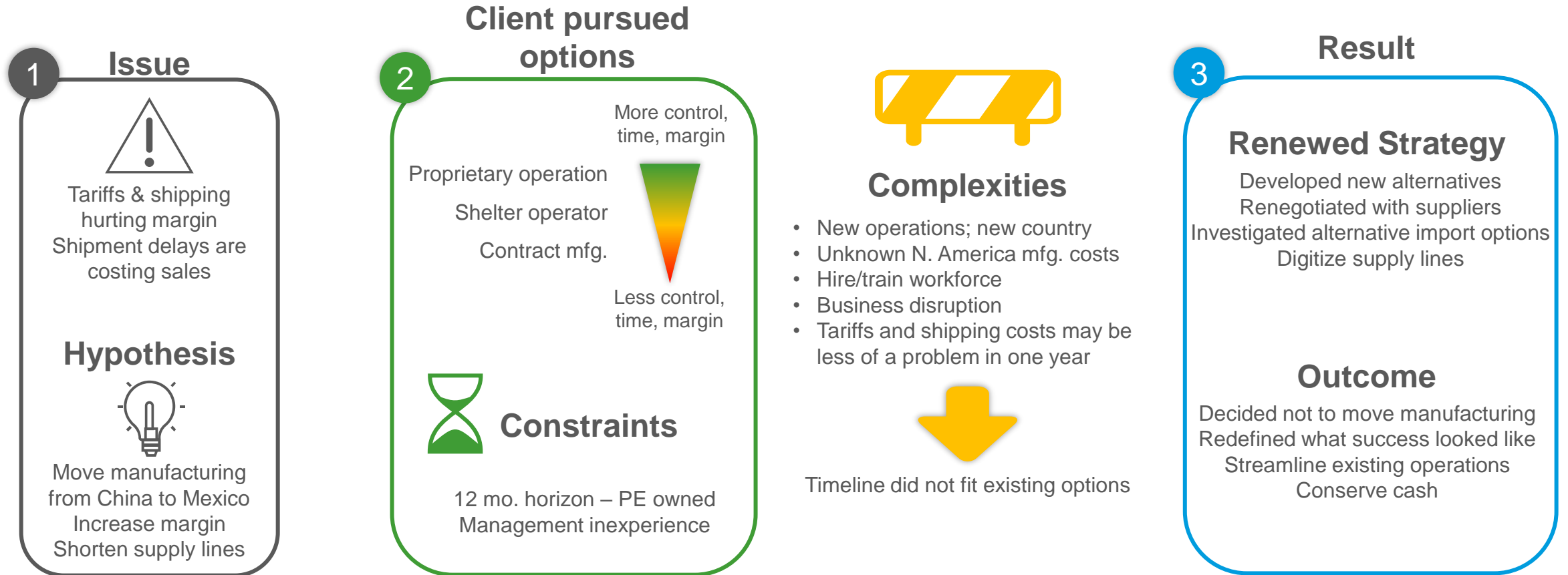
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Acknowledge the complexity of
the problem

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

Strategic Themes From Interviews

During the discovery interviews, RSM identified strategic themes that were consistently discussed. Below are the key themes that were present during the interviews:

Customer Alignment

Growing sales in EMEA requires CLIENT to become better aligned with customer buying preferences through each stage of the customer journey.

- Focus on key customer profiles of "PRODUCT" and "PRODUCT" transactions

Operating Model

Designing a EMEA operating model which supports 1) customer buying preferences, 2) mitigates enterprise risk, 3) enables tax efficient distribution, and 4) centralizes global transaction knowledge is important for CLIENT to mature their EMEA operations and lay the foundation for sustained growth.

Enterprise View

Potential Future EMEA operating model scenarios should be analyzed from a CLIENT enterprise perspective rather than a single entity or local view.

- Where feasible, scenarios selected in EMEA should be replicable to other global regions.

Sustainable Profitability

CLIENT is seeking to build sustained profitability in EMEA by growing a critical mass sales base which reduces historic regional sales volatility and focuses on maximizing after tax profitability.

Process Lifecycle

Formalizing CLIENT's EMEA processes from sales, ordering, distribution, service, and compliance for each customer profile into a standardized playbook will enable CLIENT to proactively scale their business in the region.

Supporting Technology

CLIENT's current ERP design is not configured to support local EMEA invoicing and compliance requirements which leads to manual financial processes and reporting.

- Supporting technology may be required to efficiently and compliantly scale the EMEA business.

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RSM

Customer Geo Mapping

SAMPLE: Geo mapping of current EU customers contrasted with contemplated future warehouse locations

European Expansion Opportunity

Client Hypothesis: There is a \$50m opportunity in Europe if the business can supply customers directly in-market. Objectives of expanding:

- Streamline Supply Chain (receive & assemble closer to consumer)
- Lower Consumer Prices
- Reduce fully-landed Pricing
- Reduce shipping fees
- Fast delivery (2 day standard ship)
- Launch sales program in Europe

Process Flow

CLIENT Cloud International Rollout Discovery & Planning Process

Repeatable process was developed, including questionnaire⁽¹⁾, for CLIENT to leverage in future international CLIENT Cloud rollouts.

Phase 1 Plan & Prepare

Start

Provide/review/understand AS current state documents and CLIENT Cloud

Phase 2 Discover & Design

Document AS IS business processes⁽²⁾ for Country

Compare CLIENT Cloud AS IS with Country business process AS IS – provide gap analysis

Document compliance & business functional requirements for Country

Review and confirm Country AS IS business process

Phase 3 Validate Design

Review and confirm compliance requirements (business + IT items)

Update repeatable requirements template for additional rollouts

Review and confirm compliance requirements

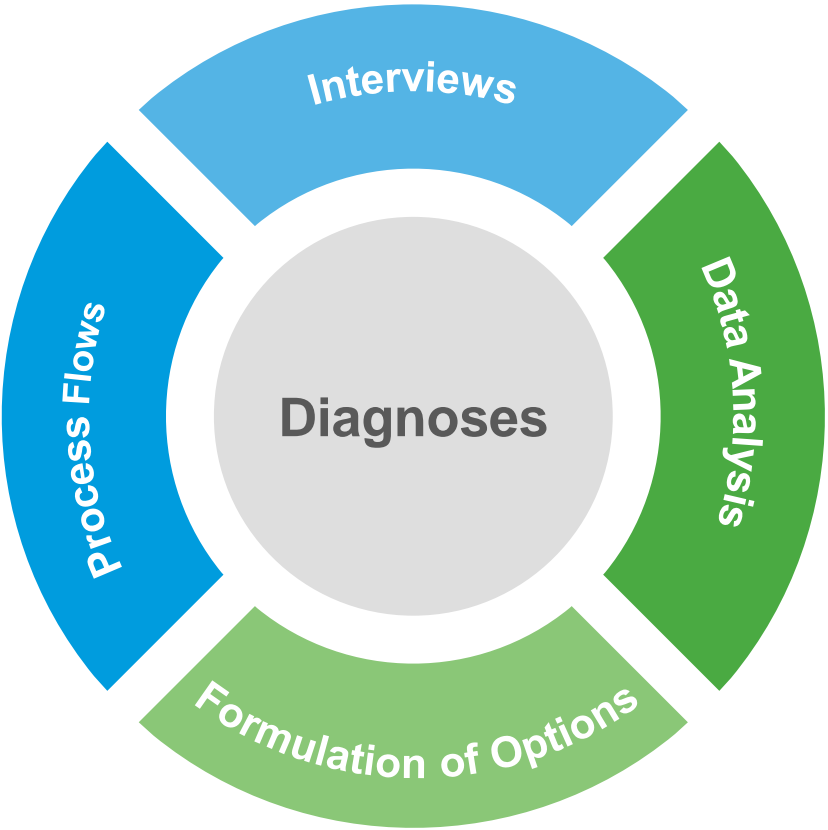
CLIENT

Rollout Project Team⁽³⁾

Franchisee

End

RSM



Market Prioritization Framework

Develop a formal market prioritization model for international sales and determine the level of resources to devote to each

StewMac International Market Prioritization Matrix

based on estimated potential opportunity

		UK	France	Belgium	TOTAL
Tier 1	Deep Dive Markets	UK, Germany, Canada	France, Italy, Netherlands	Belgium, Japan?	\$15.1M (10%)
	Priority Markets	Sweden, Norway	Switzerland, Austria		\$1.1M (1%)
Tier 2	High Potential Markets	Denmark, Finland, Australia	Spain, Ireland		\$1.8M (1%)
					\$1.8M (1%)
Tier 3	All other Markets				\$1.1M (1%)

More Resources Spent on Markets

Less Resources Spent on Markets

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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

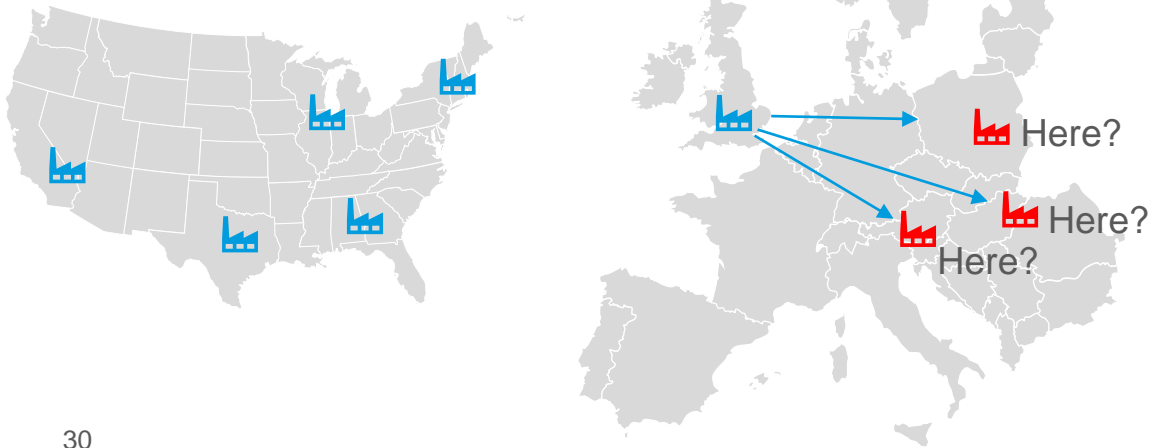
High UK mfg. costs

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

Supply chain proximity and capacity

End market proximity

Labor force

Infrastructure

Business environment

Business case – financial/non-financial

Lower

3 Outcome

Management alignment

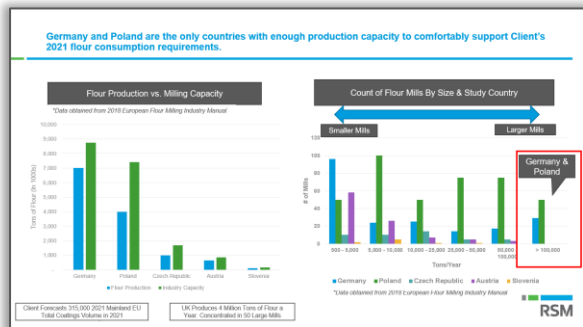
Project acceleration - 7wks

Clear path forward

Is the leadership team aligned?

Client Example #3 – Global Food Manufacturer

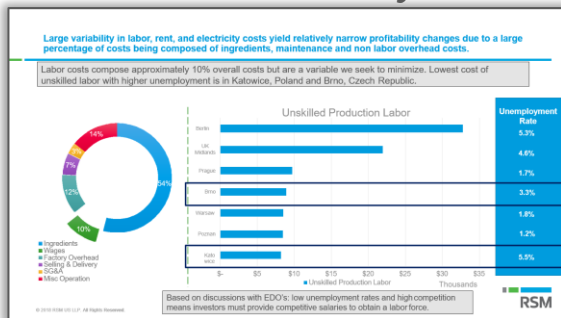
SC production capacity



SC production proximity



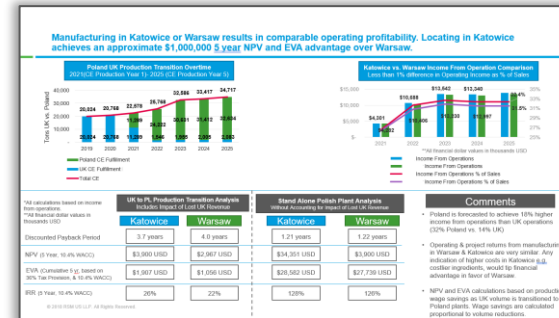
Labor force analysis



Infrastructure



Financial business case



2 Get agreement on what matters beforehand

Importance

Higher

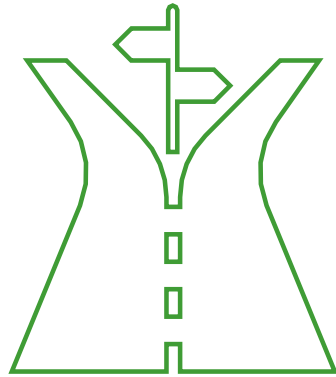
Lower

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

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How will we decide?

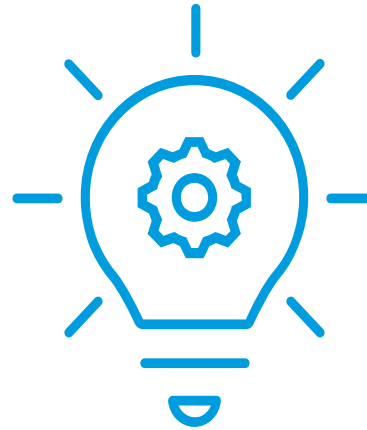
How will we decide?



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

amazon

3PL

Owner managed

3

Findings

Do owner managed DC but...

Increase sales to justify investment

Decision

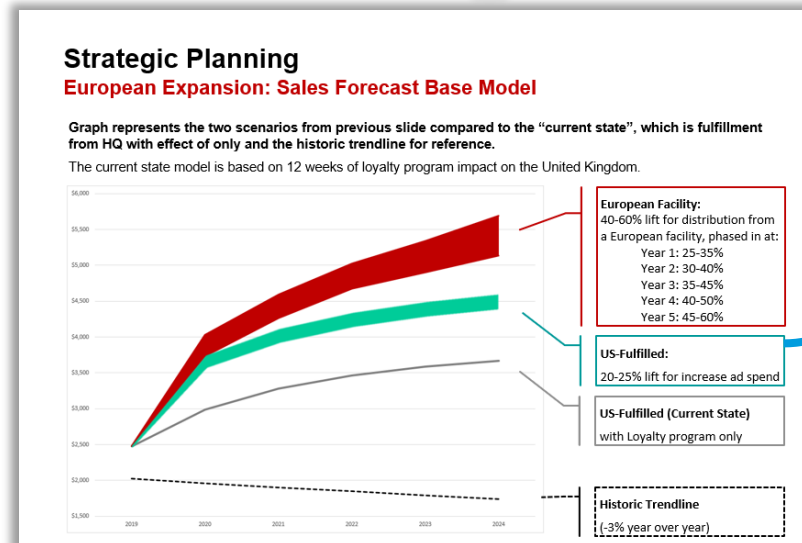
Expand loyalty program

Double ad spend

Charge a little less on shipping

Do DC later

Forecast 20-25%  key markets



Actual

14-30%

increase
within 3 months

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Pulling it all together

Pulling it all together

Hot 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

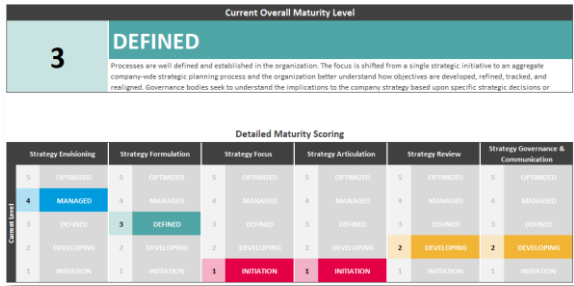
4



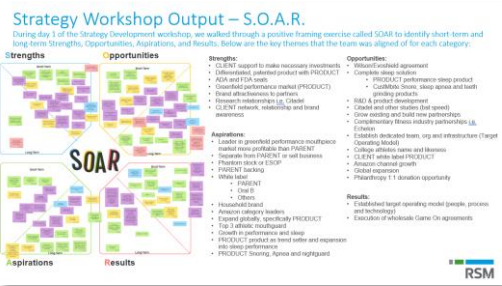
Decide, plan, execute

Example frameworks

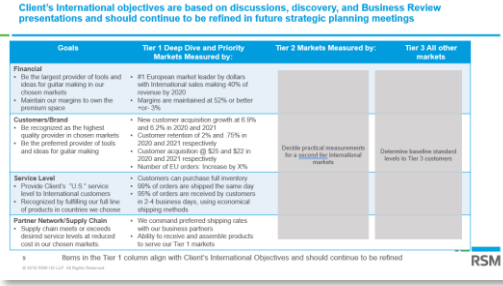
Strategy maturity assessment



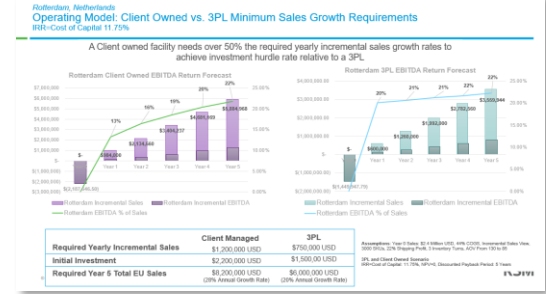
Facilitate workshops



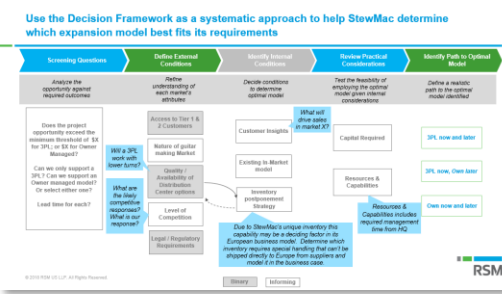
Formulate Goals



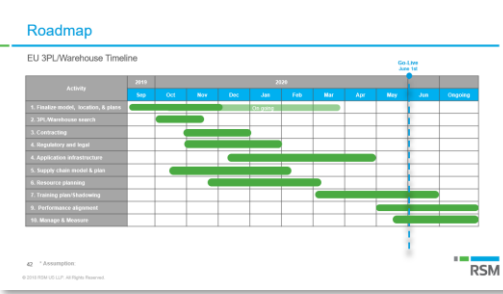
Business case



Decision model



Planning, Execution



Higher


Lower

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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