

Reducing costs and managing risks in your supply chain

Managing in a downturn



How to drive cost savings and manage risk through supply chain performance

Supply chain overview

Supplier Risk Management (SRM)

Q&A

Contact information

How to drive cost savings and manage risk through supply chain performance

Why is supply chain management important?



Companies need to look forward in terms of demand for their products



Companies need to find cost effective ways to transport their goods



Companies need to deal with unexpected bumps

How to drive cost savings and manage risk through supply chain performance

Getting real – A sample supply chain client



How to drive cost savings and manage risk through supply chain performance

How supply chain impacts today's client issues

Industry issues

How to realize sustainable margin improvement and cost reduction to survive turbulence in the market

How to right size the supply chain in line with the new market realities

How to generate cash flow and improve working capital position

How to balance risk and growth in a complex world

Client issues

How can I reduce my cost infrastructure with the new realities of the economy?

How can I shift some of my fixed costs into variable costs to more closely align with changes in demand?

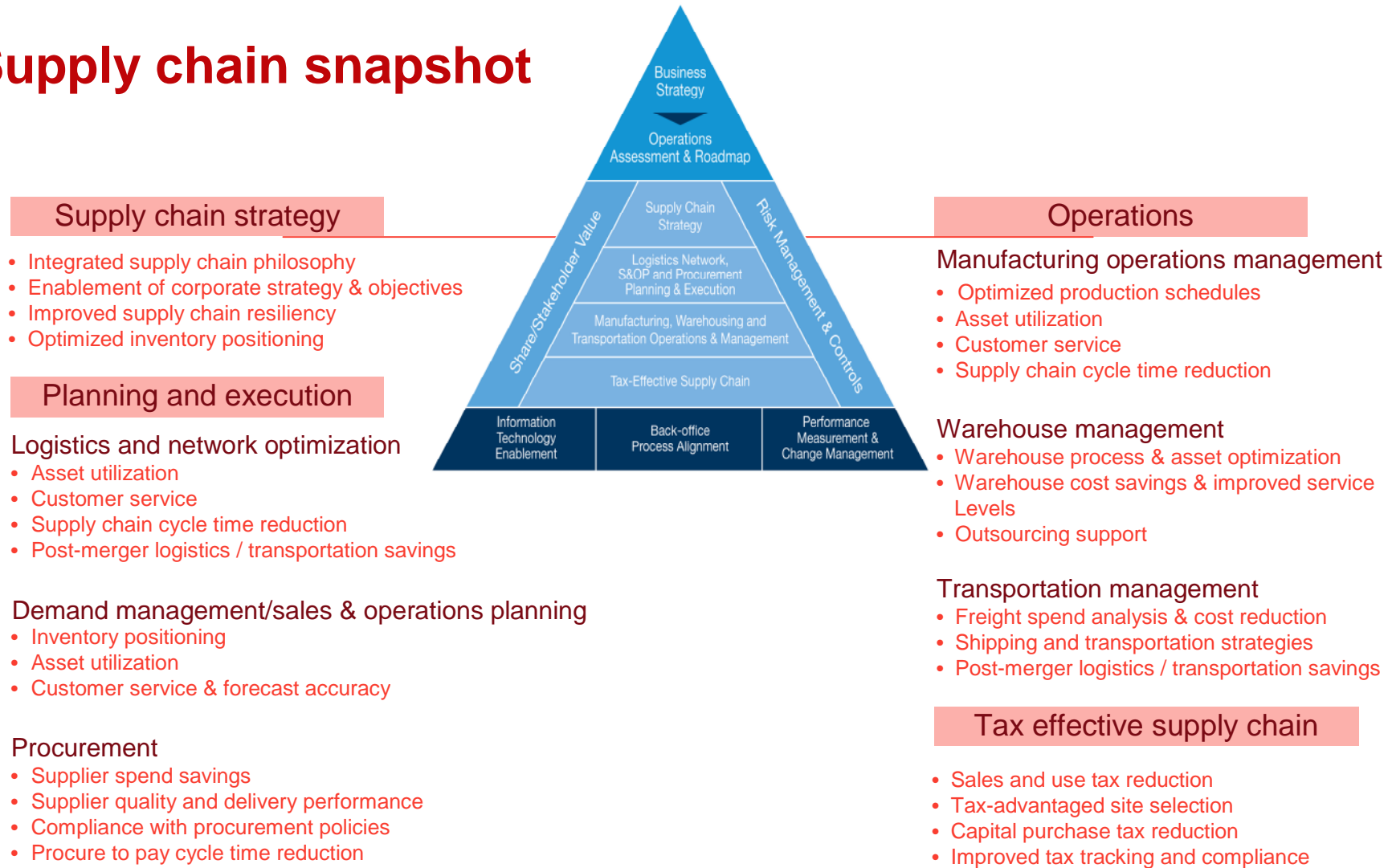
How can I better manage inventory and improve my working capital position?

How lean should I be, and how do I get there?

How do I manage, proactively forecast and control the financial and operational risks associated with my supplier base?

How to drive cost savings and manage risk through supply chain performance

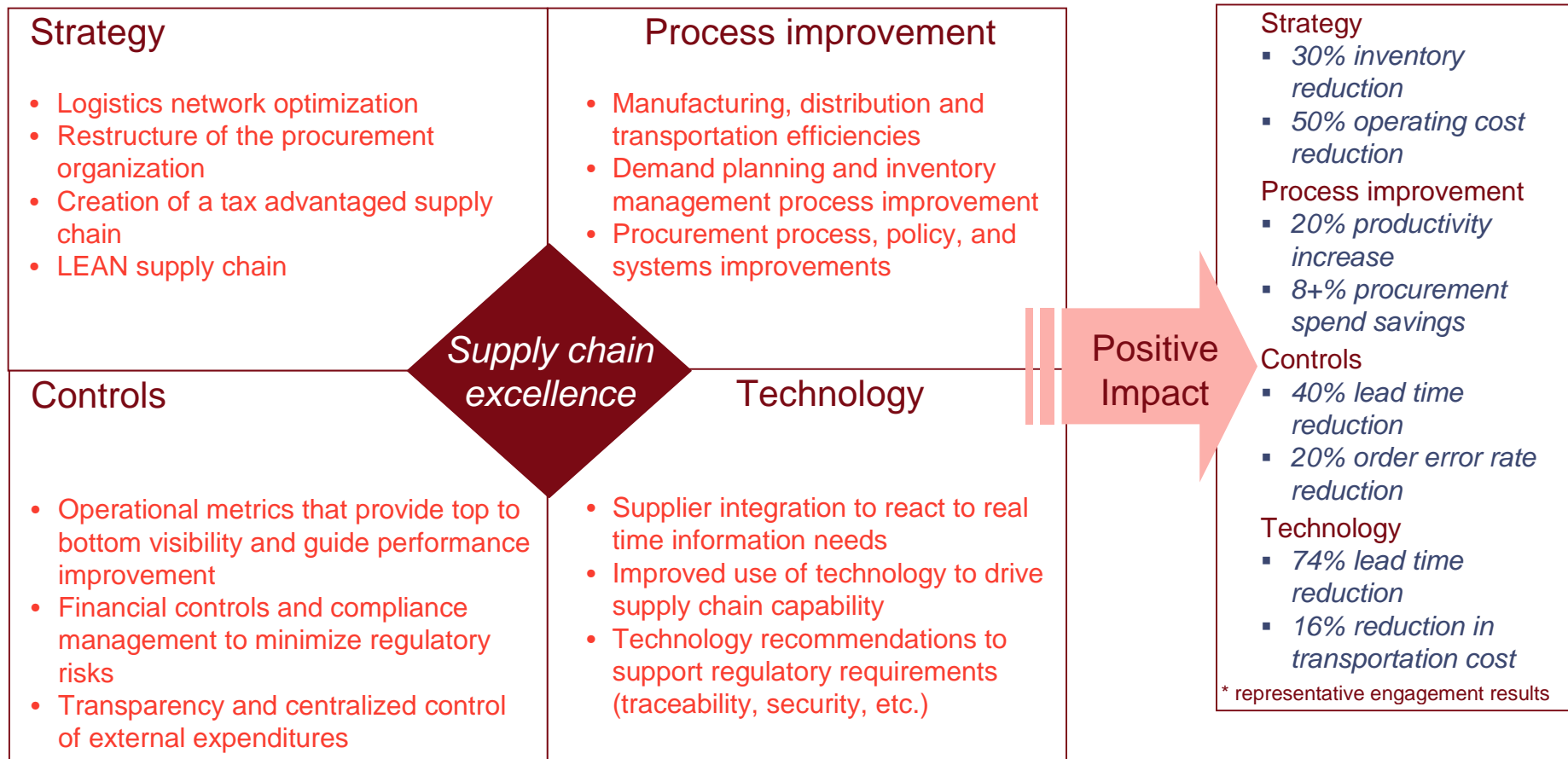
Supply chain snapshot



Supply chain costs can typically account for anywhere between 2-15+% of revenues

How to drive cost savings and manage risk through supply chain performance

Supply chain can generate positive financial returns



Case Study – High end fashion retailer

Client issues

Significant reduction in revenue

80% reduction in prior year earnings

\$20M reduction target across enterprise as part of ownership mandate to CEO

\$3.5M targeted savings for SCM

Results

Reduction in store service levels (\$1M in annual savings)

Supply chain reorganization (\$1M in annual savings)

Distribution centre standards redevelopment (\$1M)

Monogramming cost recovery (\$500K loaded costs)

Not-for-resale spend reduction

Case Study – Mid-market specialty gift retailer

Client issues

Modest reduction in revenue, flat sales expected for balance of 2009

PE suggested cost reduction initiative to proactively drive savings in anticipation of market slowdown

Lack of understanding at senior levels of SCM opportunities

\$2M targeted savings for SCM based on benchmarks

Opportunities (in progress)

Distribution centre productivity improvements (\$350K)

Inbound air freight costs (\$1.7M)

Consolidation of outbound freight vendors

High fixed to variable labor ratio across distribution, monogramming and engraving areas

Case Study – Industrial products manufacturer

Client issues

Top line contraction due to impact on automotive business

Bank covenant risks identified due to cash flow

Working capital seen as a major opportunity and focal point

Local optimization and focus in key markets despite global supply chain footprint

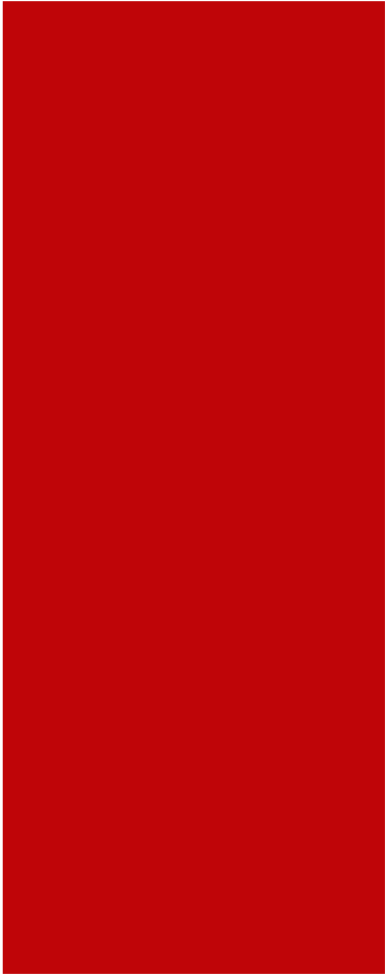
Results

Projected \$5-8M reduction in inventory based on global supply chain process and organizational changes

\$1.5M in non-material spend reduction

Additional working capital improvements expected including impacts on payable/supplier payments

Supplier Risk Management (SRM)



Issues surrounding supplier risk

- Manufacturing companies are under continued adverse pressures (commodity prices, foreign exchange rates, US/global financial crisis, low consumer confidence)
- Supply chain strategies such as rationalizing suppliers, JIT/Lean and global sourcing may stretch supply chain and result in disruptions if not monitored and planned for properly
- *“With the state the industry is in, it's possible that Ontario's automotive supplier base could be reduced by 25 to 30 per cent.”¹*

¹ FM Global study of more than 600 financial executives around the world

Why Supplier Risk Management?

- Applies to:
 - Any organization with a supply chain
 - Any organization that operates as part of a supply chain

- Significant supply chain disruptions can:
 - Reduce company's revenue and market share
 - Increase existing cost base significantly
 - Create one time unplanned costs
 - Consume management time
 - Threaten customer satisfaction (productivity loss, poor delivery)
 - Threaten company reputation and brand equity
 - Damage credibility with investors and stakeholders

Why Supplier Risk Management?

- Research supports the importance of supplier risk management:
 - Supply chain risk has greatest potential to disrupt revenue¹
 - Recovery from a supplier failure can take at least two years or more²
 - In 2007, 58% of 138 companies surveyed suffered financial losses as a result of supply chain disruptions³

- In 12 months before a supply chain disruption, companies experienced²:
 - 7% lower sales growth
 - 11% higher costs
 - 14% increase in inventories
 - Drops in operating income, return on assets, return on sales

¹ FM Global study of more than 600 financial executives around the world

² Georgia Institute of Technology & University of Western Ontario study of 800 companies between 1989 and 2000

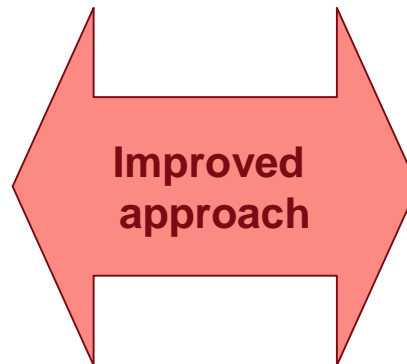
³ Aberdeen Group report

Benefits of SRM

Company can achieve **sustained competitive advantage** through enhanced supplier risk management.

Direct benefits

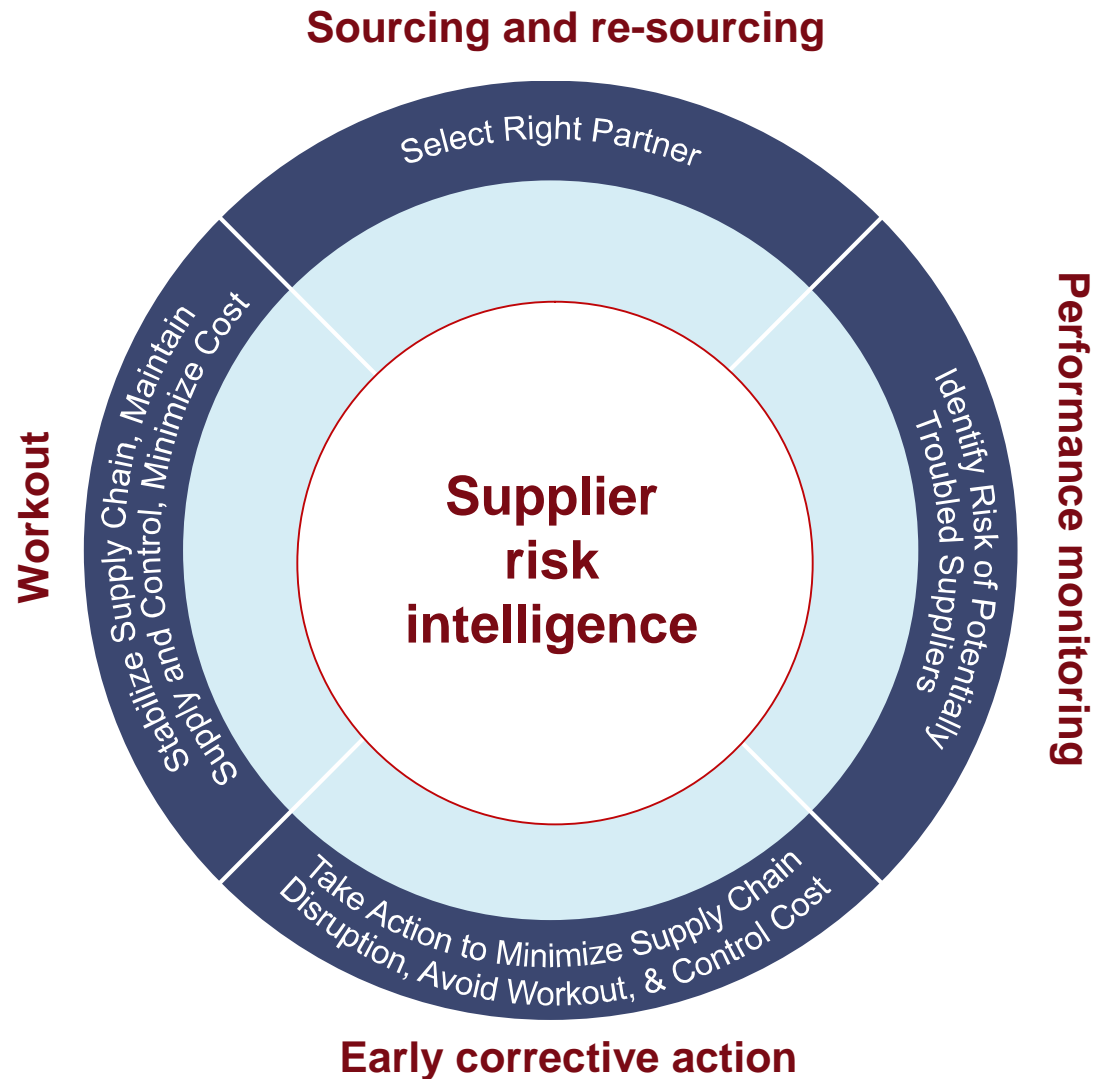
- ✓ Lower direct costs
- ✓ Lower indirect costs
- ✓ Higher quality products
- ✓ Less resources focused on troubled supplier issues
- ✓ Establish trust through collaboration and partnering
- ✓ Capitalize on LCC sourcing opportunities, while maintaining acceptable supply risk
- ✓ Ensure on-time delivery
- ✓ Improve controls



Indirect benefits

- ✓ Reduced cost of capital
- ✓ Reduced costs associated with logistics, raw material and commodity purchases
- ✓ Improved innovation/technology
- ✓ Integrate with strategy on sustainable supply base (minimize carbon footprint)
- ✓ Ensure brand reputation
- ✓ Origin compliance

Supplier Risk Management life cycle



Supplier Risk Management (SRM)

Our credentials

Recent examples of our proven record

Client	Project objective	Project outcome
Supply chain risk management and workout		
Automobile manufacturer	Supply chain risk assessment	<ul style="list-style-type: none">• Based on standard PwC methodology, PwC analyzed and prioritized risk of their 200 largest and most critical suppliers to assist in the financial viability assessment of their current supply base
Automotive OEM	Reduce direct spend cost through implementation of an aggressive low cost country sourcing program	<ul style="list-style-type: none">• Analyzed more than \$80B of direct spend to identify product groups suitable for low cost country sourcing• Selected 20 product groups for initial program of sourcing. Identified suppliers with appropriate capabilities and capacities to meet the client's requirements• Long-listed and then short-listed down to two potential suppliers for each product/part number• Conducted due diligence of prospective suppliers to enable contracts to be placed
Aerospace and defense manufacturer	Supply chain risk management process assessment and reengineering	<ul style="list-style-type: none">• Reviewed current supply chain risk management practices within a major program for the sector• Developed detailed improvement recommendations for the program, sector and company wide• Conducted a workshop to assist the company in determining the critical objectives of the organization and identified leading risk indicators that may affect these objectives

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