

Reducing Total Operating Costs



SourcingStrat

The Total Cost Solution

SourcingStrat

SourcingStrat was developed for companies that are looking to their supply chain for innovative ideas on reducing costs, minimizing risks and achieving objectives in order to create a competitive advantage.

Purchasing professionals are under greater pressure today than ever before to cut costs, and to prove the savings they achieve. Price is an obvious cost to focus on, but in many cases price offers only a small savings compared to the potential reduction in total operating costs and other benefits suppliers can provide. In fact MAPI (Manufacturers Alliance for Productivity and Innovation) conducted a study and found that Industrial companies that buy on and measure Total Cost are 35 percent more profitable than ones which do not. Yet accurately measuring savings beyond a few obvious costs such as: price, quantity, freight, inventory and some energy savings can be difficult. This is where SourcingStrat can help.

SourcingStrat Objectives

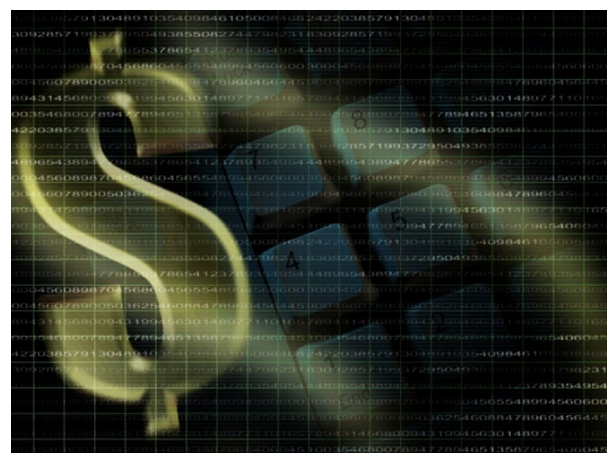
- Objective:** To help you to identify opportunities to reduce your company's overall operating costs and improve profitability through the solutions your suppliers can provide.
- Objective:** To develop a competitive advantage through your supply chain by providing the means to measure, track and compare suppliers on a Total Cost basis.
- Objective:** To provide the means for suppliers to report their savings in a standard format to avoid different measurement systems for each supplier (it is hard to control operating costs when each supplier measures the costs involved differently).

ITC Transmission is a utility company dedicated to providing reliable power to their customers at the lowest possible cost. Suppliers play a critical role in helping them to achieve their objectives. But only if they can work with them as partners in improving safety, reducing costs, minimizing outages (downtime) and working with rate payers (customers) to create goodwill.

In 2006 they started utilizing SourcingStrat to track these issues in order to prove to FREC (the Federal Regulatory Energy Commission) that working with suppliers in this way saved the rate payers more money than price alone could provide. The results in the first year: \$30 million in additional savings.

Imagine the impact on your profitability if you could measure, track and compare suppliers on a Total Cost basis. How would this help you to reduce your total operating cost?

Case Study



Strategic Business Solutions L.L.C.

Reducing Total Operating Costs

Improving Your Profitability

The number one goal of SourcingStrat is to help you improve your company's profitability by helping you to work with suppliers to reduce total operating cost. Suppliers impact costs in every aspect of your business. The issue becomes how to evaluate the solutions your suppliers provide in order to make purchasing decisions based on how they impact your total operating costs. To accomplish this SourcingStrat provides the means to evaluate solutions around:

1. Revenues: reduced downtime, improved production rates and reduced reject rates.
2. Expenditures: energy, disposal costs, repair costs, usage rate, freight and many other costs.
3. Assets: inventory, floor space (production and warehouse) and equipment.
4. Processing Costs: ordering, invoicing, maintenance, production, warehouse operations....

Some companies are reducing total cost by as much as 30% or more compared to price paid. How would achieving even a 5% reduction in Total Cost help you towards achieving your savings goals?

Creating a Competitive Advantage Through Your Supply Chain

So many suppliers say they add value that customers often discount the claim. But for companies that want to reduce total operating costs, they need the ability to measure and track suppliers based on the dollar value their solutions provide.

To help you accomplish this, SourcingStrat comes with 60 different solutions built into it, but it is easy to add in your own solutions, and it provides three different methods for documenting the savings achieved:

1. Memo format: a very simple form that will allow anyone to document a solution.
2. Standard worksheet: one worksheet that provides the means to document the most common costs your suppliers impact: Cost of Materials, Freight, Processes and Inventory.
3. Custom worksheets: if auditable savings are needed for Sarbanes Oxley or for initiatives like Six Sigma this work area allows you to create custom worksheets where specific cost drivers can be listed (the program comes loaded with 100 cost drivers, but you can add in others), and it allows you to outline and explain how the savings from each cost driver was calculated.

Event Name:	Lamp Substitution	Record Number:	2010-02-07-09-4611-TIM				
Customer:	ABC Manufacturing	Customer Contract:	MRO Contract				
Division / Plant:	Classville	Solution Provider:	Strategic Business Solutions: Randy Hamfield				
Customer Contact:	Candace Cook: Purchasing Manager	Provider Location:	Southeast: 17-Classville				
Descriptor:	Incandescent to compact fluorescent	Industry:	Manufacturing				
Objectives:	Reduced Energy Usage Green Initiatives	Supply Chain Support:	GE Lighting				
		Commodity Service Group:	Lighting				
		Status:	Savings Accepted				
		Start Date:	2/7/10				
		Date Changed:	2/7/10				
Estimated Annual Impact:	\$106,100.00						
Notes							
Situation: ABC, Classville asked what we could do to reduce energy usage. This was due to two key objectives: 1) reduce Operating Costs and 2) to help them achieve their Green initiatives.							
Solution: We reviewed a number of options with them and after evaluating the benefits the team chose to evaluate a change in lamps. Once this strategy was selected we audited their current system and calculated the savings and energy consumption reductions that would accrue.							
Results: - significant reduction in energy consumption - reduced energy costs - reduced consumption of the number of lamps utilized each year - reduced maintenance time required							
TCO Category: Expenditures Reductions							
TCO Component	Dollar Type	Saving Type	(A) Annual Quantities Impacted	(B) Price Differences	Annual Savings (A*B)		
New Lamp	Hard Savings	On Going	1,000,000	-\$3.5000	-\$3,500.00		
Old Lamp	Hard Savings	On Going	8,000,000	\$0.4500	\$3,600.00		
Utilities: Lighting Electricity	Hard Savings	On Going	600,000,000	\$0.0600	\$36,000.00		
Annual Expenditure Impact:					\$36,100.00		
TCO Category: Process Improvements							
TCO Component	Dollar Type	Saving Type	(A) Past Process Cost	(B) Frequency of Past Use	(C) Current Process Cost	(D) Frequency of Current Use	Process Savings (A*B) - (C*D)
Installation: cost	Soft Savings	On Going	\$10,000	8,000,000	\$10,000	1,000,000	\$70,000.00

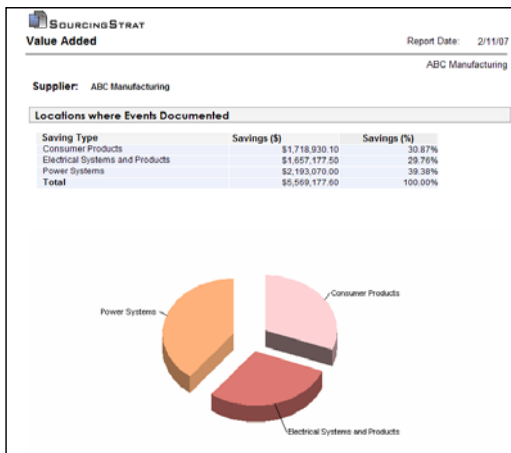
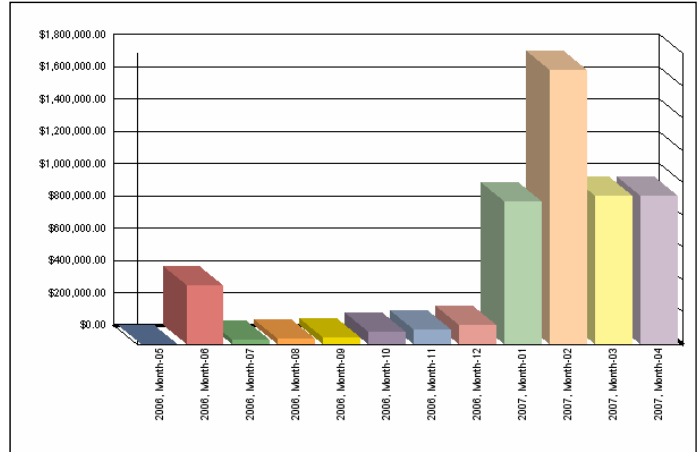
In addition to the different documentation methods, SourcingStrat allows you a number of print options, from a single event (like the one show here) to compiled savings reports involving many records that include graphs like those displayed on the next page.



Reducing Total Operating Costs

SourcingStrat provides a wide range of reporting options to help you demonstrate the savings you achieved through your suppliers. The reports can be used to help you during business reviews, negotiations, management reviews and more.

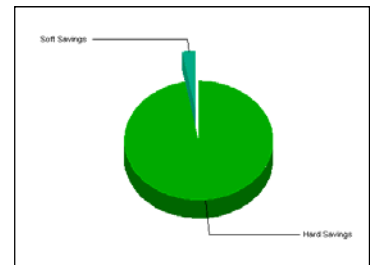
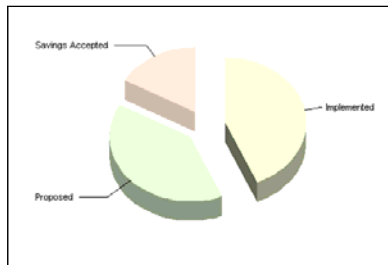
Some of the more popular report options include both charts and tables of the total cost savings achieved over any timeframe, as illustrated in the bar chart to the right. This shows how the savings have increased over the last year.



SourcingStrat also allows you to include a number of other charts around the characteristics of the savings including:

- Savings by location (shown to the left)
- Savings Status (shown below, center)
- On-going versus One-time (not shown)
- Hard versus Soft (shown below, right)

As well as several others characteristics.



Each graph comes with its own table like the one shown above in order to show the dollars and percentages around each graph.

SourcingStrat can also include each solution your suppliers provided in with the report and allows you three levels of detail in the reporting format (the standard report format is illustrated on the previous page).

And if you want just a quick list of solutions to review, the program also provides summary reports like the one show to the right.

The purpose in providing these various report options is to allow you to measure and track suppliers to ensure they are working with you to achieve your savings goals.

Event Name	Start Date	Status	Savings Achieved
Asset Management	2/23/06	Implemented	\$ 354,875.00
Asset Management	3/27/06	Proposed	\$ 497,136.60
Asset Management	4/13/06	Savings Accepted	\$ 479,606.00
Asset Management	9/12/06	Proposed	\$ 555.00
Asset Management	9/12/06	Proposed	\$ 12,300.00
Bar Coding	9/12/06	Implemented	\$ 29,200.00
Bar Coding	9/12/06	Savings Accepted	\$ 30,000.00
Capital Equipment Selection Support	10/05/06	Savings Accepted	\$ 237,245.00
Consignment	9/12/06	Implemented	\$ 12,650.00
Consignment	9/12/06	Proposed	\$ 21,290.00
Consignment	9/12/06	Savings Accepted	\$ 2,000.00
Design Support: Direct Materials	9/12/06	Implemented	\$ 888.00
Emergency Response	9/12/06	Savings Accepted	\$ 12,500.00
Emergency Response	9/12/06	Implemented	\$ 10,000.00
Emergency Response	9/29/06	Savings Accepted	\$ 500.00
Energy Audits	6/7/06	Implemented	\$ 250,946.00
Energy Audits	11/13/06	Savings Accepted	\$ 273,105.00
Evaluated Receipt Settlement	9/12/06	Proposed	\$ 4,500.00
Evaluated Receipt Settlement	9/12/06	Implemented	\$ 1,600.00
Evaluated Receipt Settlement	9/12/06	Savings Accepted	\$ 2,500.00
Failure Analysis	8/3/06	Savings Accepted	\$ 220,450.00
Failure Analysis	9/12/06	Implemented	\$ 70,128.00
Feed & Speed Optimization	9/12/06	Savings Accepted	\$ 22,680.00
Feed & Speed Optimization	11/13/06	Savings Accepted	\$ 81,852.00
Freight Analysis	2/12/06	Proposed	\$ 35,000.00
Guaranteed Annual Price Downs	5/16/06	Savings Accepted	\$ 23,450.00
Installation Support	6/15/06	Proposed	\$ 46,990.00



Reducing Total Operating Costs

ROI & Payback



SourcingStrat also provides instant information and reports on the Return on Investment (ROI) and Payback period for each solution. You can even take a number of solutions and run an ROI / Payback report on a number of solutions at the same time.

The reports let you see the investment cost, the savings, the ROI and payback in order to provide you the means to have all of the information needed to make a sound financial decision on the solutions your suppliers provide.

On-Line Suggestion System

Suggestion Pipeline:

How often have ideas for cost savings been presented by a supplier, but somehow “lost” before you could take advantage of them?

SourcingStrat provides the means for you to identify, track, review and report opportunities by status (Proposed, Implemented, Savings Accepted).

Event Name	Division/ Plant	Descriptor	Estimated Impact	Start Date	Status	Contract	Solution Provider	Provider Location	Lock Status
<input type="checkbox"/> Substitutions	Consumer Products	Wiring Harness	\$17,066.00	03/21/2007	Savings Accepted	MRO Contract	Strategic Business Solutions: Tim Underhill	Northeast: 29-Boston	<input type="checkbox"/>
<input type="checkbox"/> Energy Audits	Electrical Systems and Products	Steam traps and leaks	\$328,450.00	01/17/2008	Implemented	(General)	Parker-Fluid Connectors: Randy Hairfield	Cleveland Region: Test	<input type="checkbox"/>
<input type="checkbox"/> Substitutions	Consumer Products		\$24,000.00	03/30/2010	Proposed	(General)	Strategic Business Solutions: Tim Underhill	Northeast: 29-Boston	<input type="checkbox"/>
<input type="checkbox"/> 1 - Equipment Survey	Electrical Systems and Products	Built Gasket Template	\$3,600.00	04/09/2009	Implemented	MRO Contract	Strategic Business Solutions: Tim Underhill	Northeast: 29-Boston	<input type="checkbox"/>
<input type="checkbox"/> Lamp Substitution	Electrical Systems and Products	anything to describe the solution	\$43,600.00	12/11/2009	Implemented	(General)	Strategic Business Solutions: Tim Underhill	Northeast: 29-Boston	<input type="checkbox"/>
<input type="checkbox"/> 1 - Hubbell Energy Audit	Consumer Products	Anything you want	\$70,300.00	02/06/2009	Implemented	(General)	Strategic Business Solutions: Tim Underhill	Northeast: 29-Boston	<input type="checkbox"/>
<input type="checkbox"/> Substitutions	(Corporate)		\$98,500.00	12/22/2009	Proposed	(General)	Strategic Business Solutions: Tim Underhill	Northeast: 29-Boston	<input type="checkbox"/>

It provides a tool for suppliers to report savings opportunities and for you to keep track of the opportunities...to always have a pipeline of opportunities when you are ready to pursue them.

Bottom Line: SourcingStrat helps you to manage and measure the process for reducing your operating costs.

Strategic Business Solutions

To learn more about how we can help you to demonstrate the value you bring to your customers, or for a web demonstration of SourcingStrat, contact us at:

918-494-8085

info@sbs4me.com

www.sbs4me.com



Strategic Business Solutions L.L.C.