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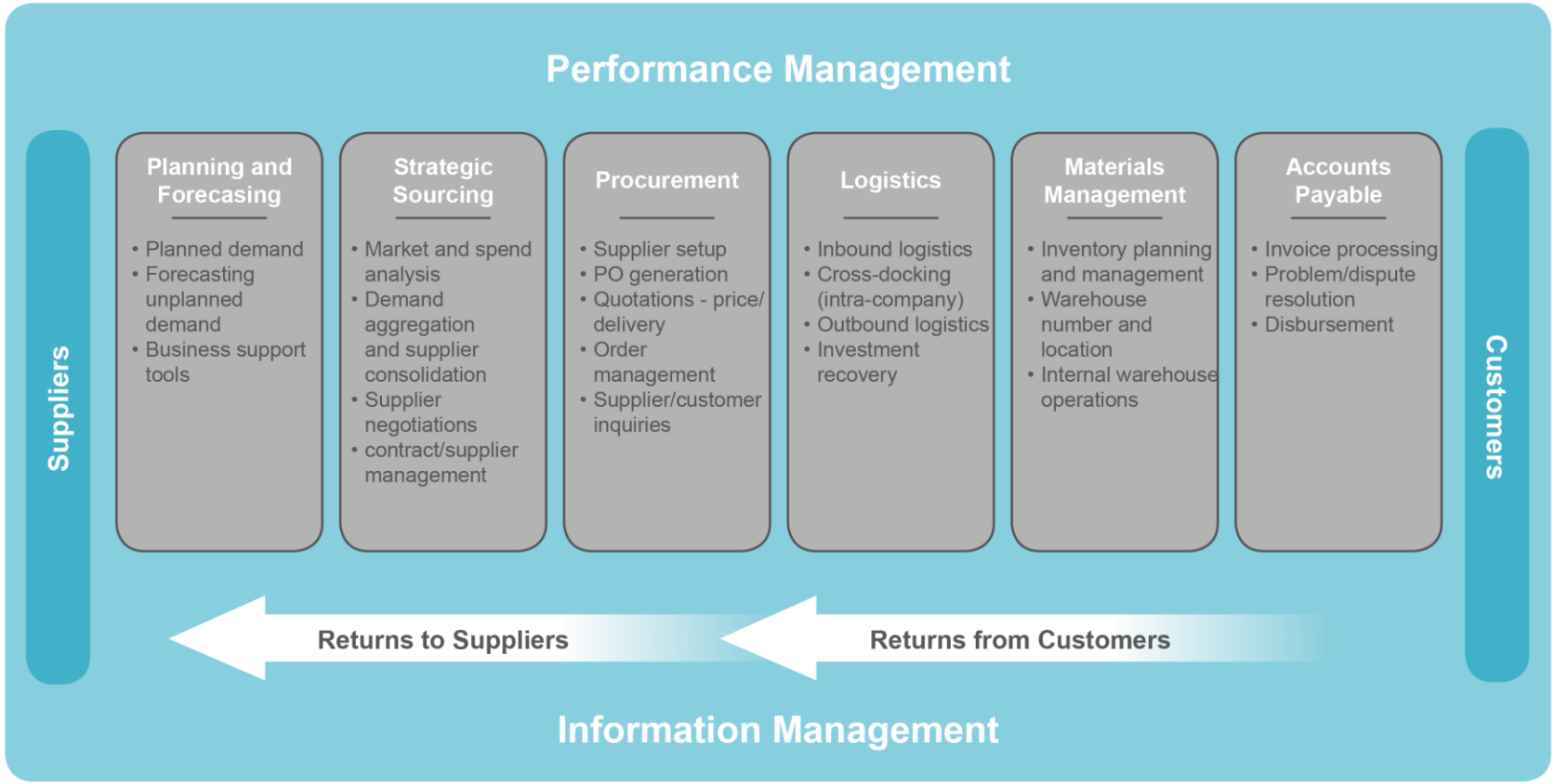
Smart. Focused. Done Right.®

A Proven Approach to Achieving Supply Chain Excellence

ScottMadden's Supply Chain Assessment Methodology

Foundational Components of Supply Chain

The six major supply chain functions cover a broad range of areas which are typically performed by multiple business units across an enterprise. Leading practice supply chains have evolved from a "functional silo approach" in the 80s, to a more "integrated model" today, which leverages standardization and process collaboration/visibility to align the appropriate skills with the degree of complexity for a particular purchase.



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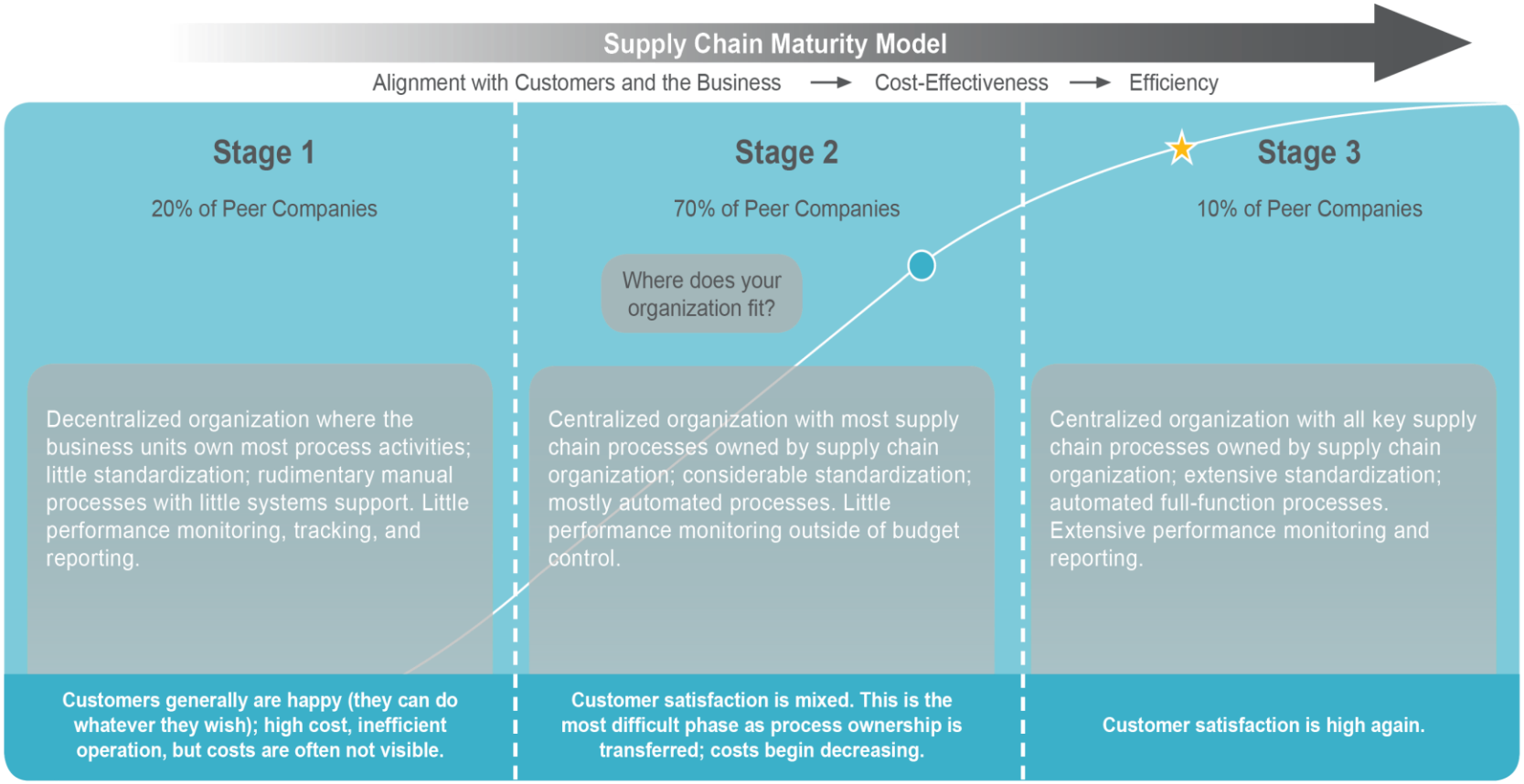
Evolution of Supply Chain Maturity

Our understanding of the key performance levers in supply chain and the path companies typically take as they mature gives us a clear lens in which to view supply chain efficiency and effectiveness.



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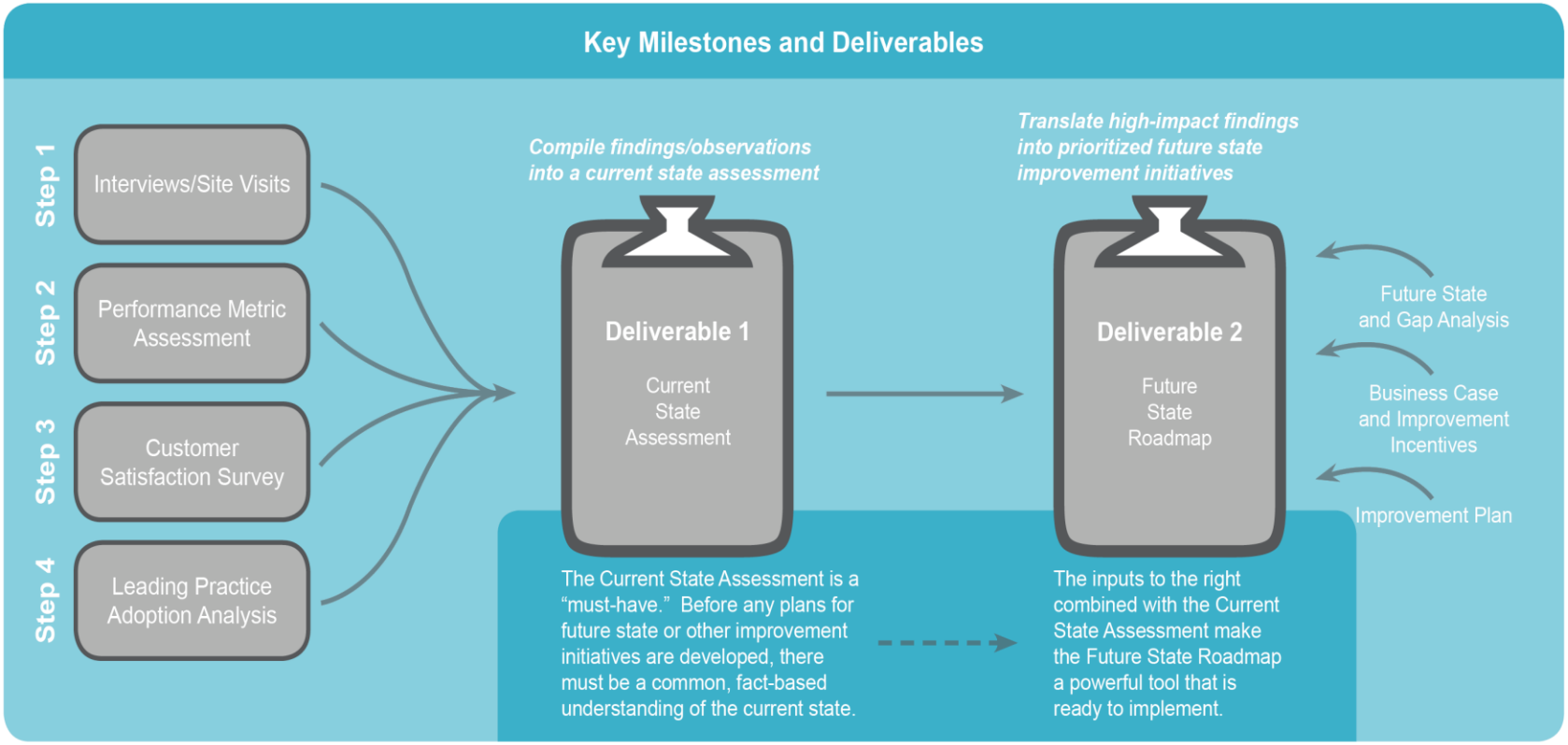
The Supply Chain Assessment Approach

The ScottMadden Supply Chain Assessment provides a complete view of supply chain performance, identifies the highest impact opportunities, and enables executives to pursue a clear path to improve supply chain effectiveness and efficiency.



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Step 1:

Site Visits and Interviews

What We Do

- Site visits are a critical input in the supply chain assessment, particularly for logistics and materials management functional areas
  - We visit as many sites/parts of the organization as practical to evaluate operational practices and facility cleanliness and organization
  - Our experienced professionals record their observations in notes and photographs, using their knowledge and experience to focus on key areas
- Interviews of supply chain executives and other key stakeholders probe organizational effectiveness
  - We can quickly establish whether there is clear alignment for supply chain's mission and strategy
  - Testimonials from stakeholders and supply chain personnel provide valuable insights into how work is done and prevailing perceptions of supply chain

Why We Do It

- Observations from site visits typically provide some of the most insightful components of the current state assessment

Improving the visibility of work and striving to complete work in a timely fashion will reduce material in-process and out-of-place which fosters discipline and reduces exceptions and damages

- Confidential interviews often allow personnel to reveal what they are hesitant to bring up internally

"Well, we always have to expedite parts because we're not allowed to participate in early stage planning…"

Provides you with expert insight into operations and personnel.

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Step 2:

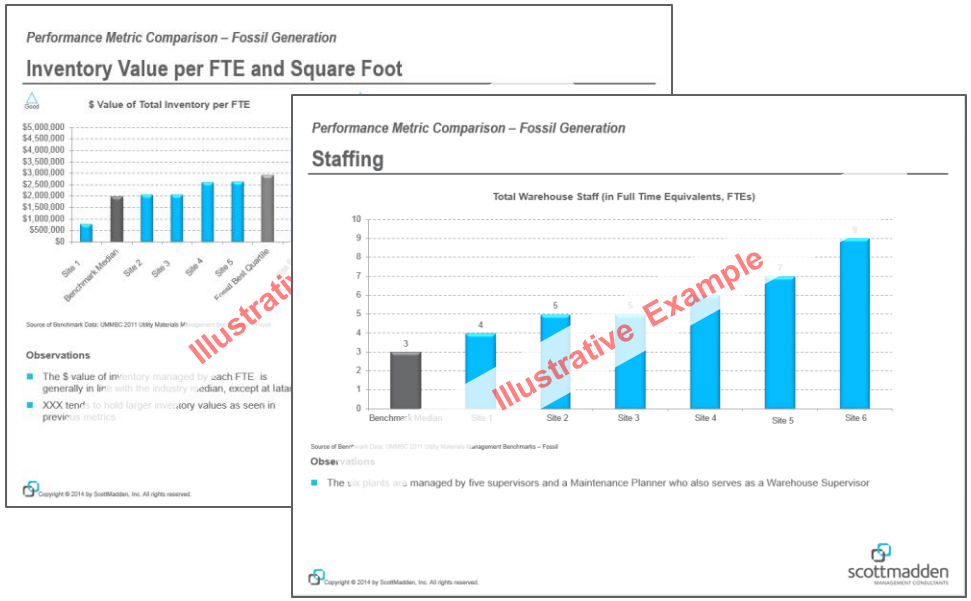
Performance Metric Assessment

What We Do

- Measuring performance is critical to improving performance; so is knowing what top performers are achieving
  - We work with your organization to obtain data across a variety of key performance indicators
  - If data does not exist, we will help obtain measurements
- Each metric is presented on a graph that shows additional key data
  - We tailor the peer panel to reflect your industry and other applicable factors, while maintaining statistical integrity
  - Key comparators such as industry mean, top quartile, etc. are included

Why We Do It

- Provides performance insights as well as showing the performance level across the industry
- Grounds performance awareness in reality; many clients are surprised to find that performance they found acceptable was factually below industry standards



Demonstrates where you stand in relation to industry-proven key performance indicators.

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Step 3:

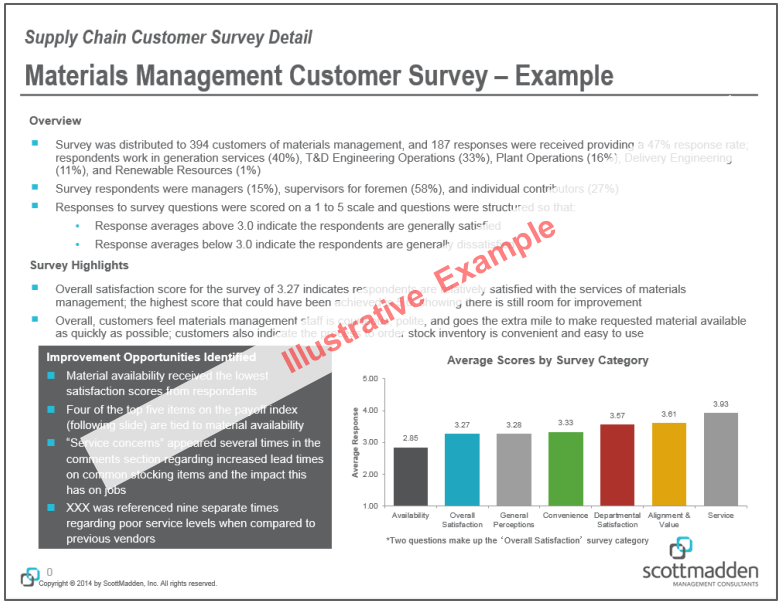
Customer Satisfaction Survey

What We Do

- Many supply chain organizations only receive feedback when customers are unhappy; our approach provides a more balanced view
  - We conduct our survey using web-based technology
  - Each survey assesses customer satisfaction across the following key categories:
    - Alignment and value
    - Availability
    - Convenience
    - Service
    - General perceptions
- We not only provide summary results along with our expert commentary and findings, we also supply the raw data for you to preserve for future use/comparison

Why We Do It

- As a business partner, supply chain should be responsive to customer needs, this shows whether customers perceive they are being met
- Customer opinions can point the way toward opportunities for high-value improvement



Provides insight into how customers perceive the value added by supply chain.

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Step 4:

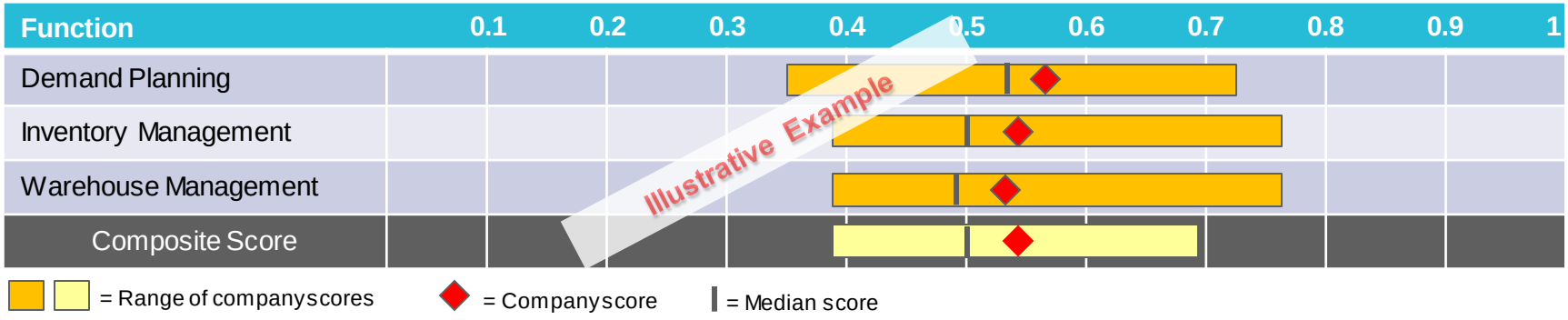
Leading Practice Adoption (LPA) Analysis

What We Do

- Top-performing organizations are frequently found to have adopted industry-leading practices resulting in enhanced performance and profitability
  - Our proprietary database of more than 500 leading practices is updated regularly to reflect the latest advances, allowing us to make a comprehensive comparison of client practices to those of leading companies
- We work collaboratively with a selection of client team members in focus group sessions to score each practice
  - Adoption of each leading practice is assessed on breadth and depth to determine the usage of the practice as well as how deeply it is ingrained

Why We Do It

- The resulting comparison (reference example below) provides a clear picture of the client's performance in each functional category against a range of company scores from similar companies in our database
- Our leading practices assist in identifying high-priority improvement opportunities
- Our approach builds consensus regarding the current state situation and existing practice gaps and serves as an objective barometer from which to view future progress



Not only measures what you've adopted but shows valuable industry leading practices.

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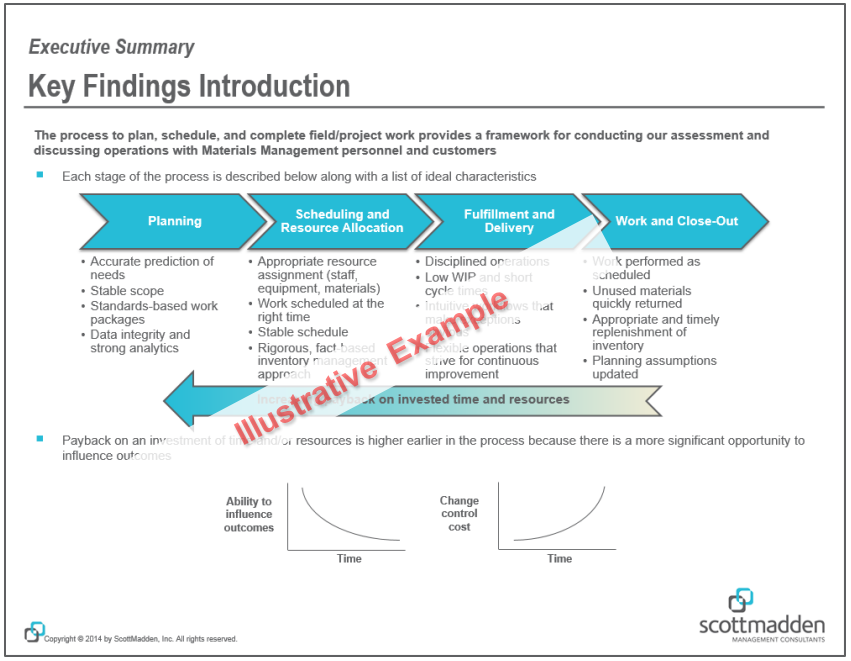
Deliverable 1:

Current State Assessment

All four previous components are inputs into the current state assessment

- We use our insight and experience to analyze to derive the most significant improvement opportunities for supply chain
- They are derived from site visits and interviews, prior performance metric benchmarking, the results of the supply chain customer survey, and the LPA
- Details of the assessment are prioritized and implications to the organization are plainly articulated



Executive Summary

Key Findings Introduction

The process to plan, schedule, and complete field/project work provides a framework for conducting our assessment and discussing operations with Materials Management personnel and customers

- Each stage of the process is described below along with a list of ideal characteristics

Planning	Scheduling and Resource Allocation	Fulfillment and Delivery	Work and Close-Out
• Accurate prediction of needs • Stable scope • Standards-based work packages • Data integrity and strong analytics	• Appropriate resource assignment (staff, equipment, materials) • Work scheduled at the right time • Stable schedule • Rigorous, fact-based inventory management approach	• Disciplined operations • Low WIP and short cycle times • Intuitive workflows that make exceptions • Flexible operations that strive for continuous improvement	• Work performed as scheduled • Unused materials quickly returned • Appropriate and timely replenishment of inventory • Planning assumptions updated

Increasing payback on invested time and resources

- Payback on an investment of time and/or resources is higher earlier in the process because there is a more significant opportunity to influence outcomes

Illustrative Example

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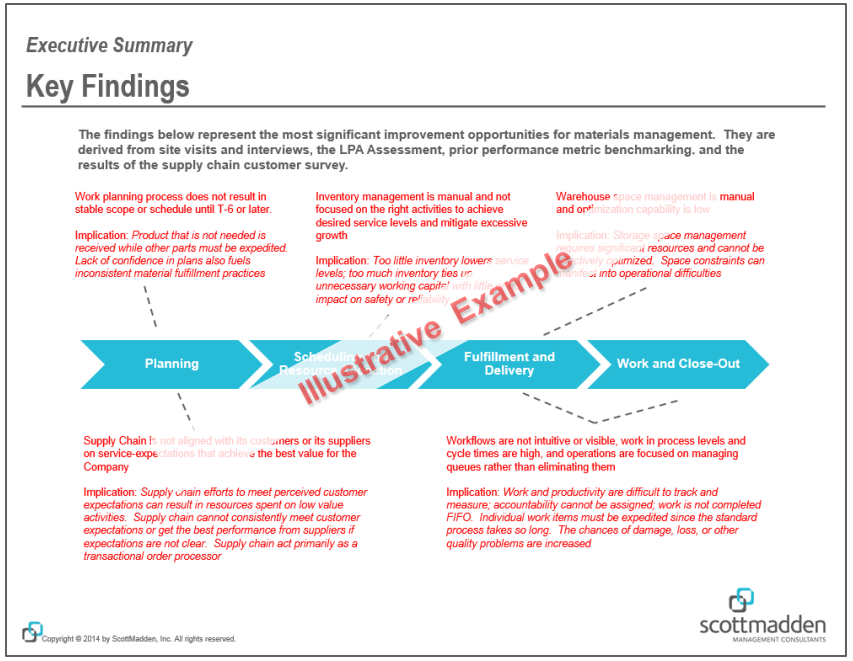

Executive Summary

Key Findings

The findings below represent the most significant improvement opportunities for materials management. They are derived from site visits and interviews, the LPA Assessment, prior performance metric benchmarking, and the results of the supply chain customer survey.

Work planning process does not result in stable scope or schedule until T-6 or later.

Implication: *Product that is not needed is received while other parts must be expedited. Lack of confidence in plans also fuels inconsistent material fulfillment practices*

Inventory management is manual and not focused on the right activities to achieve desired service levels and mitigate excessive growth

Implication: *Too little inventory lowers service levels; too much inventory ties up unnecessary working capital with little impact on safety or reliability*

Warehouse space management is manual and optimization capability is low

Implication: *Storage space management requires significant resources and cannot be effectively optimized. Space constraints can manifest into operational difficulties*

Planning	Scheduling and Resource Allocation	Fulfillment and Delivery	Work and Close-Out

Supply Chain is not aligned with its customers or its suppliers on service-expectations that achieve the best value for the Company

Implication: *Supply chain efforts to meet perceived customer expectations can result in resources spent on low value activities. Supply chain cannot consistently meet customer expectations or get the best performance from suppliers if expectations are not clear. Supply chain act primarily as a transactional order processor*

Workflows are not intuitive or visible, work in process levels and cycle times are high, and operations are focused on managing queues rather than eliminating them

Implication: *Work and productivity are difficult to track and measure; accountability cannot be assigned; work is not completed FIFO. Individual work items must be expedited since the standard process takes so long. The chances of damage, loss, or other quality problems are increased*

Illustrative Example

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Presents the analyzed inputs and provides fact-based conclusions.

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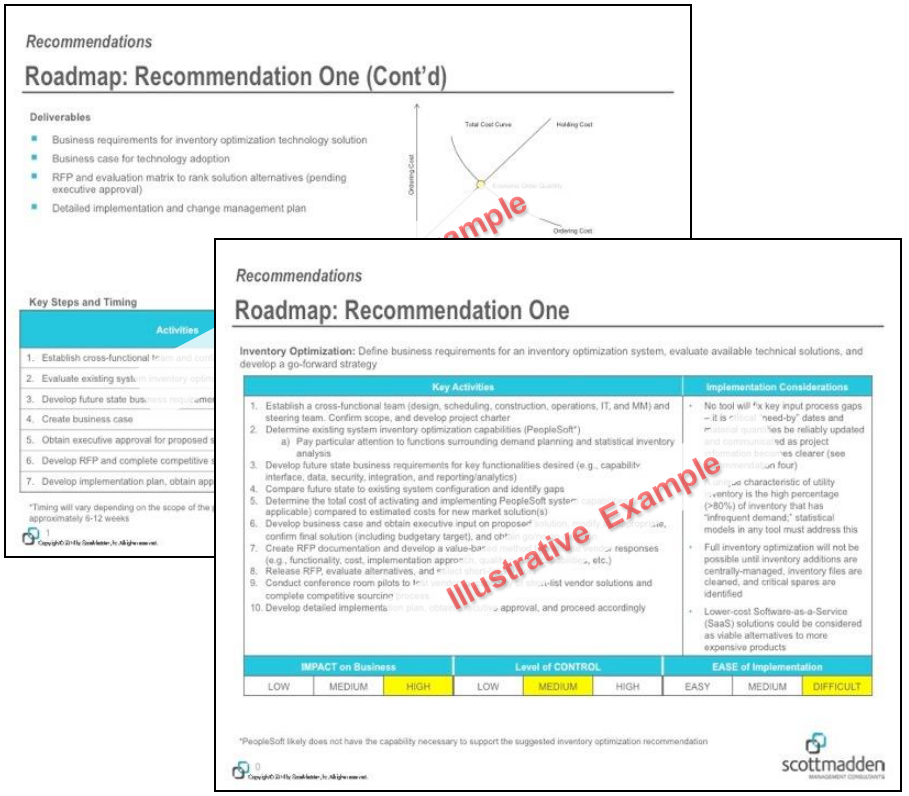
Deliverable 2:

Future State Roadmap

Clients find the greatest value in ScottMadden's specific, actionable plans for improvement that provide a clear path forward to implementation success

- We prioritize the plan specific to each client's needs to address the gaps that represent the highest value opportunities
- Plans include:
  - Key activities and implementation considerations
  - An assessment of
    - Impact on the business
    - Level of control by supply chain
    - Ease of implementation
  - List of deliverables and key steps



Recommendations

Roadmap: Recommendation One (Cont'd)

Deliverables

- Business requirements for inventory optimization technology solution
- Business case for technology adoption
- RFP and evaluation matrix to rank solution alternatives (pending executive approval)
- Detailed implementation and change management plan

Key Steps and Timing

Activities
1. Establish cross-functional team and conf
2. Evaluate existing syst inventory optim
3. Develop future state bus requirements
4. Create business case
5. Obtain executive approval for proposed s
6. Develop RFP and complete competitive s
7. Develop implementation plan, obtain app

*Timing will vary depending on the scope of the approximately 8-12 weeks

Recommendations

Roadmap: Recommendation One

Inventory Optimization: Define business requirements for an inventory optimization system, evaluate available technical solutions, and develop a go-forward strategy

Key Activities	Implementation Considerations
1. Establish a cross-functional team (design, scheduling, construction, operations, IT, and MM) and steering team. Confirm scope, and develop project charter 2. Determine existing system inventory optimization capabilities (PeopleSoft*) a) Pay particular attention to functions surrounding demand planning and statistical inventory analysis 3. Develop future state business requirements for key functionalities desired (e.g., capability interface, data, security, integration, and reporting/analytics) 4. Compare future state to existing system configuration and identify gaps 5. Determine the total cost of activating and implementing PeopleSoft system applicable) compared to estimated costs for new market solution(s) 6. Develop business case and obtain executive input on proposed solutions confirm final solution (including budgetary target), and ob 7. Create RFP documentation and develop a value-ba responses (e.g., functionality, cost, implementation appro etc.) 8. Release RFP, evaluate alternatives, and 9. Conduct conference room pilots to list vendor solutions and complete competitive sourcing process 10. Develop detailed implementa approval, and proceed accordingly	• No tool will fix key input process gaps – it is critical "need-by" dates and material quantities be reliably updated and communicated as project information becomes clearer (see implementation four) • Unique characteristic of utility inventory is the high percentage (>80%) of inventory that has "infrequent demand;" statistical models in any tool must address this • Full inventory optimization will not be possible until inventory additions are centrally-managed, inventory files are cleaned, and critical spares are identified • Lower-cost Software-as-a-Service (SaaS) solutions could be considered as viable alternatives to more expensive products

IMPACT on Business			Level of CONTROL			EASE of Implementation		
LOW	MEDIUM	HIGH	LOW	MEDIUM	HIGH	EASY	MEDIUM	DIFFICULT

*PeopleSoft likely does not have the capability necessary to support the suggested inventory optimization recommendation

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Illustrative Example

Gives you the real steps to achieve improvement.

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Case Study

Supply Chain Assessment

CHALLENGE

ScottMadden assisted a regulated generation, transmission, and distribution utility with an assessment of its supply chain organization against leading practices and industry benchmarks.

PROCESS

- Conducted interviews, site visits, and focus group sessions to assess supply chain activities against leading practices
- Performed performance metric assessment against industry benchmarks
- Synthesized findings from leading practice and performance metric assessment to gain clear understanding of the current state
- Reviewed current state findings and key performance improvement opportunities with supply chain leadership and COO
- Developed recommendations with key steps to achieving improvement initiatives
- Presented recommendations to supply chain leadership, COO, and CEO

RESULTS

- Provided company leadership with detailed understanding of current state supply chain operations and insight into key challenges, inefficiencies, and successes
- Identified an estimated $1.2 million in recurring annual savings that can be achieved through effective spend category management
- Established a comprehensive road map, including detailed implementation steps and key dependencies, to guide supply chain through successful implementation of recommendations

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Case Study

Materials Management Leading Practice Assessment

CHALLENGE

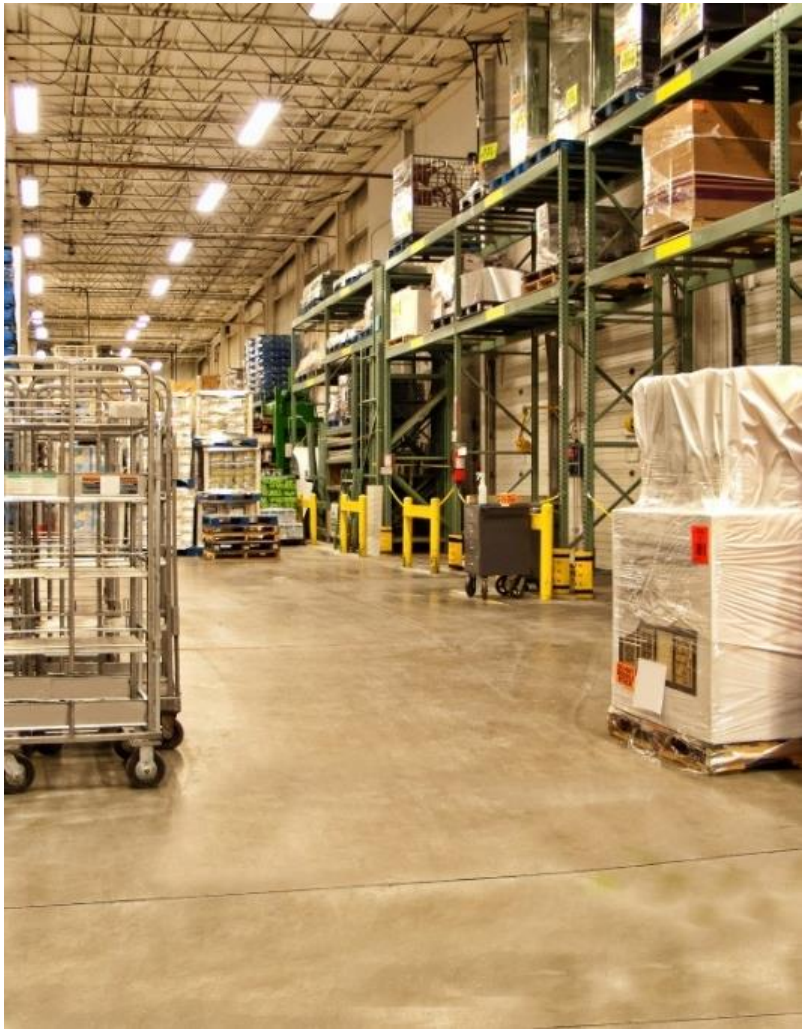
The company requested that ScottMadden conduct an assessment of the their current materials management practices and identify opportunities for further improvement.

PROCESS

- Used ScottMadden's database of more than 300 leading practices in the area of materials management to compare the company's current practices to supply chain leading practices
- Summarized the results into leading practice adoption scores for each of the following areas: inventory management, warehouse management, and transportation management
- Sorted and prioritized individual practices to focus on those with the greatest gap between current and potential use, as well as the greatest potential for positively impacting future operations
- Conducted a survey of user satisfaction with the services provided by the materials management team
- Conducted a deep dive analysis in the following areas: automated data capture, inventory optimization, service level agreements, and outsourcing

RESULTS

- ScottMadden prepared a series of reports summarizing the team's findings and observations with respect to leading practice adoption, customer satisfaction, and current performance
- These reports were reviewed with the respective business unit teams and supply chain management team
- ScottMadden's recommendations for leading practice adoption were subsequently incorporated into the client's budget and improvement program for the following calendar year



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Trey Robinson is a business strategist and shared services leader, specializing in financial advisory and multi-function shared services design, implementation, and improvement. With 18 years of consulting experience, Trey brings extensive knowledge in creating and implementing shared services strategies, leading major corporate initiatives, and improving profitability for client companies. He has interacted with corporate directors and officers of domestic and global companies covering a broad range of telecommunications, energy, aerospace and defense, retail, business services, software, and manufacturing industries.

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John Francis is the co-lead of ScottMadden's supply chain community of practice. He specializes in supply chain management, benchmarking, assessments, future state road maps, sourcing strategy, service delivery, and shared services design. He has deep experience in industrial distribution, energy and utilities, retail, food and beverage, and distribution of petroleum products.

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