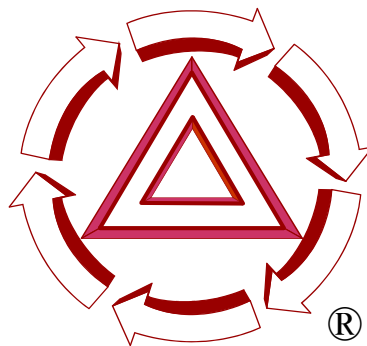


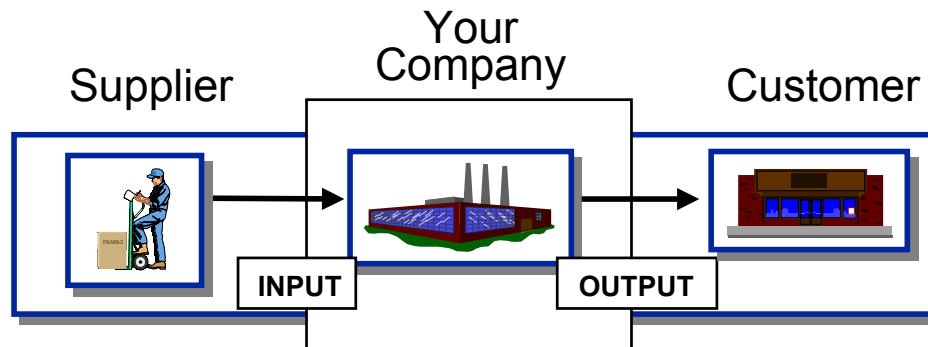
Implementation of Supply Chain Management for Services

**Institute for
Supply Management**
December 5th, 2002



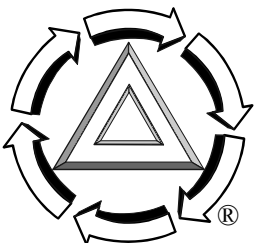
**Presented by:
Underhill & Associates**

Supply Chain Costs



- 25-35% of a most company's gross margin dollars are wasted
- Some of this waste is from internal processes
- Some of this waste comes from channel partners

NOTES:



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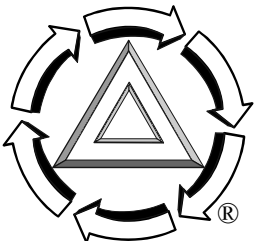
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Investment Strategy

- ☒ Return
- ☒ Risk
- ☒ Performance Requirements
- ☒ Investment

NOTES:

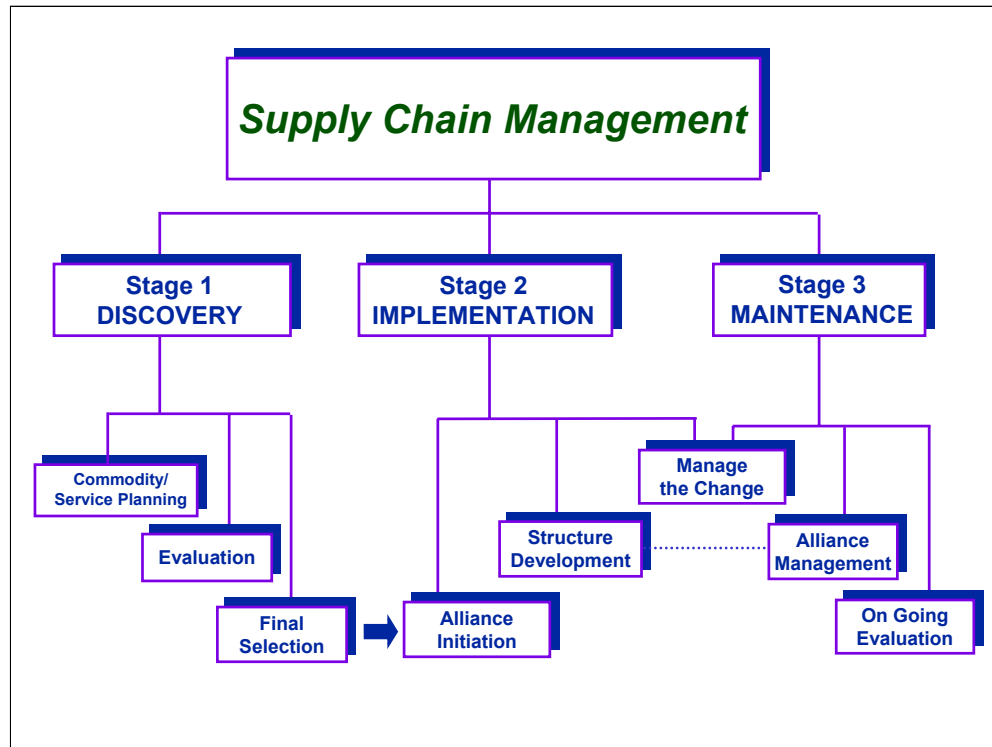


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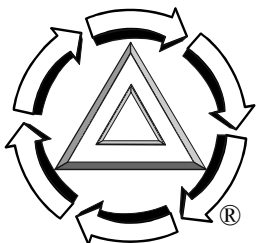
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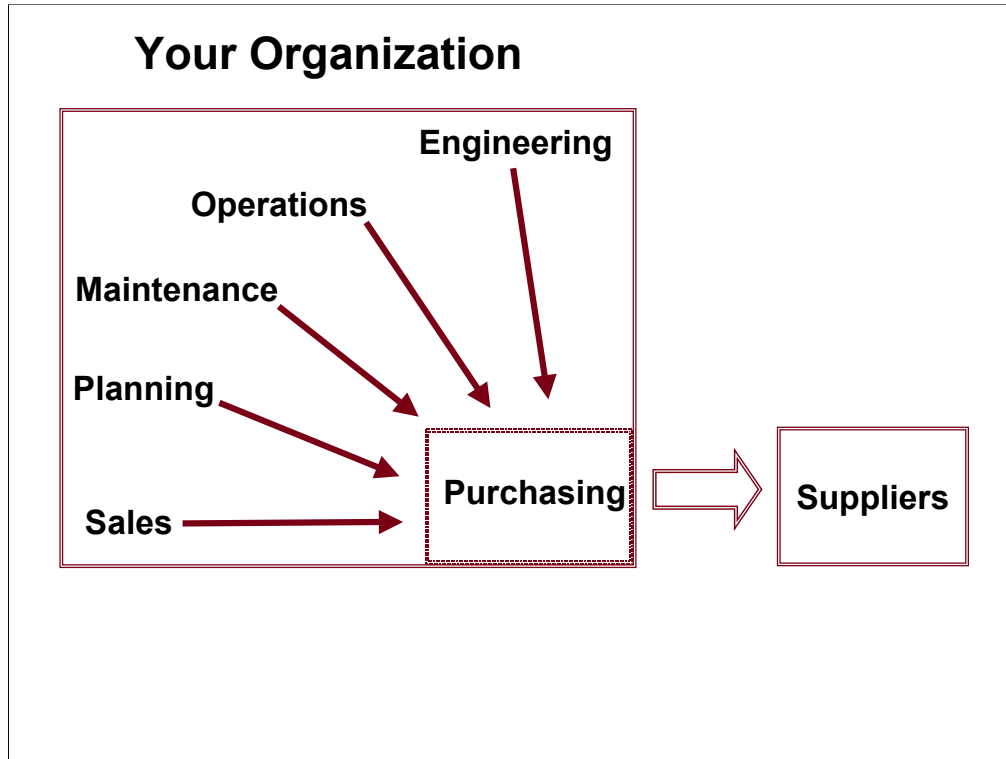


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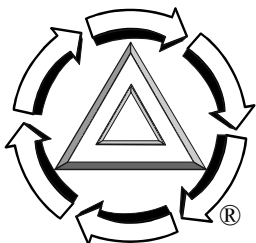
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Total Cost of Ownership Categories



Revenues



Assets



Processes



Expenditures

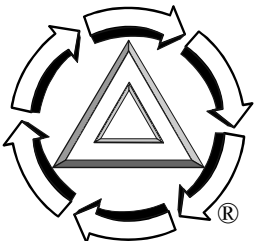


Services



Other

NOTES:



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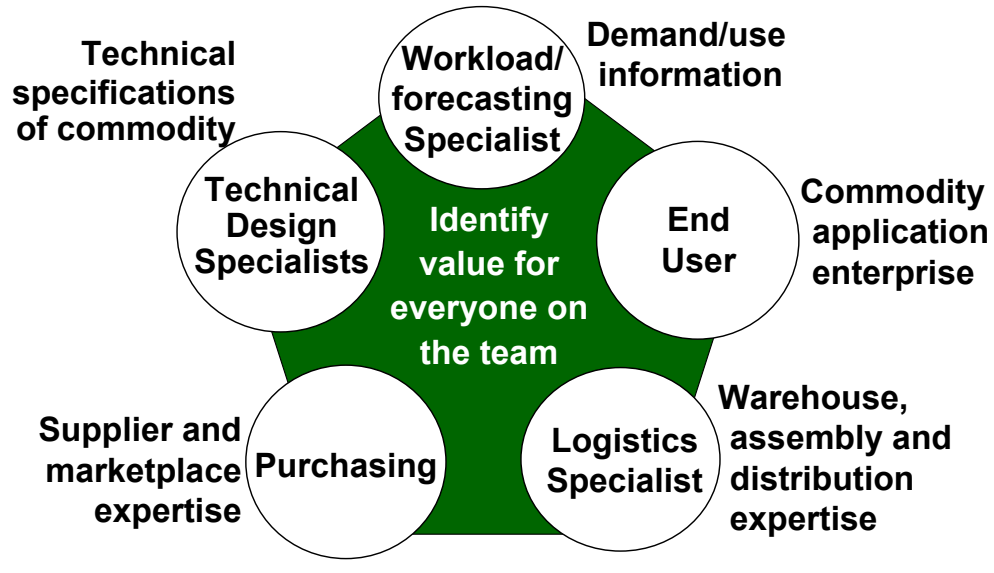
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Customer's Supply Chain Team

The composition of this team will be set by the customer or identified by the total cost impact you have.



NOTES:



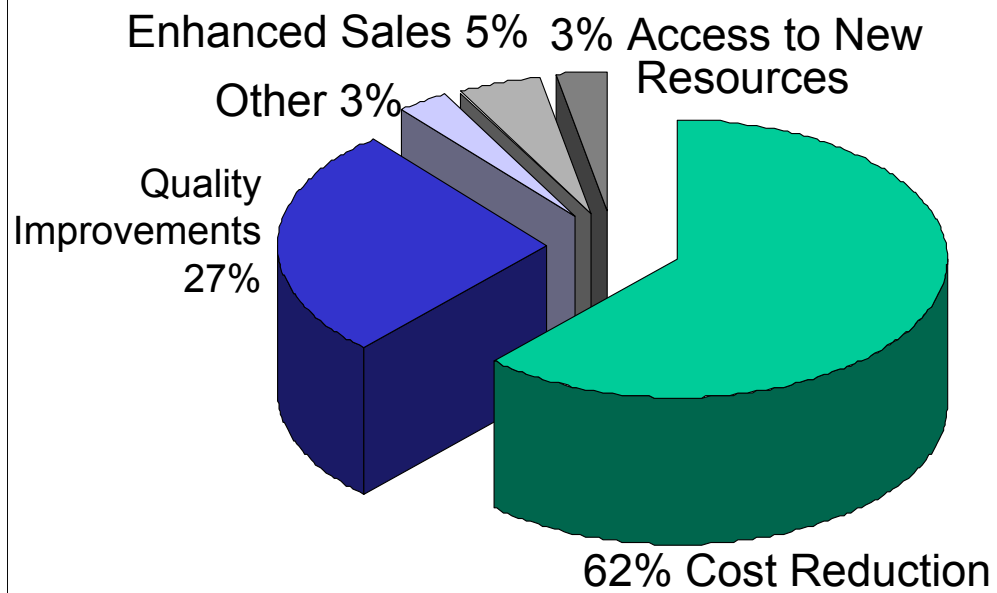
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Number One Priorities for Forming Supplier Partnerships



Source: A.T. Kearney CEO Global Business Study

NOTES:



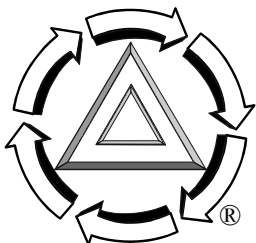
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**What opportunities exist for you to
reduce these costs?**

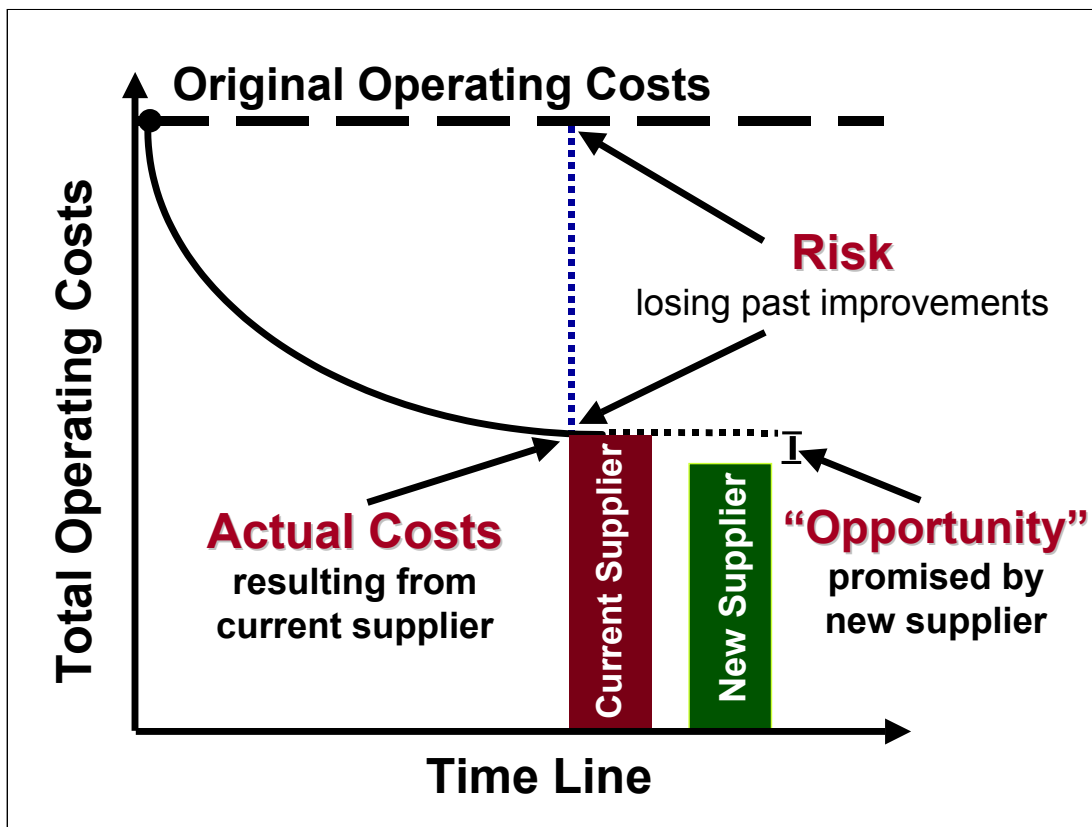


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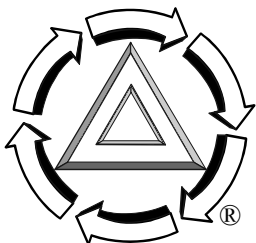
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Developing the Total Cost

For each supplier:

A. Determine Annual Expenditures: \$ _____

B. Determine Annualized Performance Costs: \$ _____

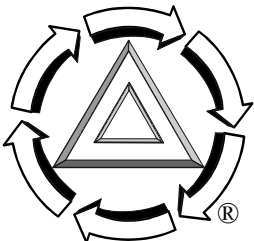
C. Sub-Total (A+B): \$ _____

D. Determine Annualized Value Added: \$ _____

E. Total Annual Cost (C-D): \$ _____

Create a Supplier Performance Index: (E/A)
to determine the Total Cost for a new Contract or to
evaluate pricing differences between supplies:
 $SPI * (Price \text{ or } Contract)$

NOTES:



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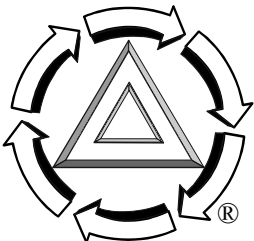
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Example

	<u>Supplier 1</u>	<u>Supplier 2</u>	<u>Supplier 3</u>
Previous Spend	\$1,000,000	\$ 900,000	\$ 900,000
<u>Performance Costs</u>	<u>15,000</u>	<u>20,000</u>	<u>40,000</u>
Sub-Total	\$1,015,000	\$ 920,000	\$ 940,000
<u>Value Added</u>	<u>(255,000)</u>	<u>(55,000)</u>	<u>(5,000)</u>
Total Annual Cost	\$ 760,000	\$ 865,000	\$ 935,000
SPI	.76	.96	1.04
<u>New Contract</u>	<u>\$3,000,000</u>	<u>\$3,000,000</u>	<u>\$2,750,000</u>
Total Cost	\$2,280,000	\$2,880,000	\$2,860,000

NOTES:



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