NIT LEAGUE TRANSPORTATION SUMMIT

Embrace the Future: Developing Your Transportation Survival Kit

January 29-31, 2018 • InterContinental® Dallas
Supply Chain Management in the Boardroom

January 29, 2018

Dr. Stephen Timme -- stimme@finlistics.com

President, FinListics Solutions – www.finlistics.com
Supply Chain Management in the Boardroom

Agenda

• Introduction
• Financial-SCM Connection
• Unlocking Hidden Value
• Power of One
• SCM Mapping to Value
• Getting There from Here
• Questions
Introductions

Supply Chain in the Boardroom: Finance
What Do Executives Really Want From SCM?

- Higher customer satisfaction (NPS)
- Lower stockouts
- Lower customer churn
- New customers
- New revenue streams
- Reduced costs
- Greater operating leverage
- Improved working capital
- Higher fixed asset utilization
Which one of the following is your company’s or client’s major SCM focus?

A. Improve the customer experience
B. Better manage operating expenses
C. Increase asset utilization
Which one of the following is your company's or client's major SCM focus?

- Improve the customer experience
- Better manage operating expenses
- Increase asset utilization
The Top-Down Approach

1. Gaps in Goals
   - Gaps may be defined relative to financial benchmarks including revenue growth, profitability & working capital, and business processes such as customer experience.

2. SCM Business Processes, Activities, Operational KPIs
   - Use gaps in KPIs to determine potential for improving processes through better management of activities.

3. SCM Solutions
   - SCM solutions enable better management of activities resulting in improved operational & financial KPIs.
Financial-SCM Connection

Supply Chain in the Boardroom: Finance
Financial Drivers \(^1\)

Return on Investment: 8.3%

Revenue Growth: 4.6%

Operating Income Margin: 8.1%

Capital Utilization: 1.71

Cash Operating Cycle: 63 days

Cost of Goods Sold as a % of Revenue: 62.1%

Selling, General & Administrative as a % of Revenue: 25.7%

Depreciation & Amortization as a % of Revenue: 4.1%

Days in Inventory: 68 days

Days Sales Outstanding: 35 days

Days Purchases Outstanding: 40 days

\(^1\)Values for Consumer Packaged Goods Industry
<table>
<thead>
<tr>
<th>Financial Metric</th>
<th>How Supply Chain Management Adds Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue Growth</strong></td>
<td>▪ Fill rates ▪ Forecasting ▪ Customer service ▪ Lead times ▪ New product speed to market</td>
</tr>
<tr>
<td><strong>% Cost of Goods Sold (COGS)</strong></td>
<td>▪ Transportation management ▪ Warehouse management ▪ Inventory management ▪ Network design ▪ Procurement ▪ Reverse logistics ▪ Selective outsourcing</td>
</tr>
<tr>
<td><strong>% Selling, General &amp; Administrative Expenses (SG&amp;A)</strong></td>
<td>▪ Customer service ▪ Supply chain administration ▪ Information technology</td>
</tr>
<tr>
<td><strong>Days in Inventory (DII)</strong></td>
<td>▪ Transportation management ▪ Warehouse management ▪ Network design ▪ Inventory visibility ▪ Forecasting accuracy ▪ Demand planning</td>
</tr>
<tr>
<td><strong>Days Sales Outstanding (DSO)</strong></td>
<td>▪ Shipment integrity ▪ Fill rate ▪ Proof of delivery ▪ Invoicing accuracy ▪ Internal communications</td>
</tr>
<tr>
<td><strong>Days Purchases Outstanding (DPO)</strong></td>
<td>▪ Procurement terms ▪ Payment practices</td>
</tr>
<tr>
<td><strong>Fixed Asset Utilization</strong></td>
<td>▪ Warehouse management ▪ Transportation management ▪ Capacity utilization ▪ Unplanned downtime ▪ IT management ▪ Selective outsourcing</td>
</tr>
</tbody>
</table>
Whose View of Supply Chain?

**CEO**
- Deliver value-adding growing revenue
- Product availability, new product speed to market and customer service

**CFO**
- Better manage the balance sheet primarily in terms of inventory and fixed assets and the income statement in terms of SCM related expenses

**COO**
- Balance supply with demand
- Maintain sufficient levels of inventory to keep production flowing, adequate spares, and efficient procurement operations

**VP Procurement**
- Better management of suppliers
- Visibility into current and future demand including both quantities and required lead times or replenishment times

**VP Sales**
- Context of customer serviceability.
- Sufficient quantities of the right products to sell. Operationally, recognize an ongoing need to provide accurate and timely field forecasts

**VP Supply Chain**
- Better plan and fulfill market demand for goods and service and do so more efficiently
- SCM buy-side, sell-side, planning and execution
What’s your assessment of your organization’s ability to articulate the financial benefits of supply chain?

A. Could be worse
B. Adequate
C. Excellent
What is your assessment of your organization's ability to articulate the financial benefits of supply chain?

- Could be worse
- Adequate
- Excellent
Unlocking Hidden Value

Supply Chain in the Boardroom: Finance
Potential to Unlock Hidden Value

### Revenue Growth

<table>
<thead>
<tr>
<th>Industry</th>
<th>Median</th>
<th>Top Performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>7.4%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Consumer Products</td>
<td>6.6%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Life Sciences</td>
<td>10.8%</td>
<td>18.9%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.7%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Retail</td>
<td>6.5%</td>
<td>13.4%</td>
</tr>
</tbody>
</table>

### Operating Income Margin

<table>
<thead>
<tr>
<th>Industry</th>
<th>Median</th>
<th>Top Performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>6.1%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Consumer Products</td>
<td>7.7%</td>
<td>13.7%</td>
</tr>
<tr>
<td>Life Sciences</td>
<td>14.1%</td>
<td>20.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6.8%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Retail</td>
<td>4.3%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

Values shown are the 5 year average median for each industry.
Revenue KPIs

**Consumer Products**

- **New Customers**: $60M gap
- **New Products/Services**: $70M gap
- **Cross-sell/Up-sell**: $32M gap
- **Customer Churn**: $40M gap

1 Value of gaps is revenue benefit of moving from median to top performer per $1B in revenue
Revenue-SCM KPIs

Consumer Products

- Customer order cycle time
- Pick-to-deliver cycle time
- % Orders delivered on time
- Stockouts
- New product time to market

Median
Top Performers
Power of One

Supply Chain in the Boardroom: Finance
Power of One ($000’s per $1 billion in revenue)

Revenue KPIs

Source: FinListics Solutions, revenue benefit for a company with $1 billion in revenue
Power of One ($000’s per $1 billion in revenue)

Operating Expense KPIs

Source: FinListics Solutions, ongoing annual cash flow benefit for a company with $1 billion in revenue
SCM Mapping to Value

Supply Chain in the Boardroom: Finance
SCM Mapping to Value in Retail

Goals: Improve Customer Experience & Profitability

Financial Metric Goal | Operational KPI | Revenue Benefit from 1% improvement (M) | Operating Income Benefit from 1% improvement (M) | EPS Benefit | EPS Impact | Rank
--- | --- | --- | --- | --- | --- | ---
Increase Revenue Growth | New Customers | $971.75 | $45.67 | $0.0103 | 0.23% | 6
| Customer Churn | $323.93 | $15.22 | $0.0034 | 0.08% | 8
| Cross-Sell/Up-Sell | $340.11 | $15.99 | $0.0036 | 0.08% | 7

Decrease Cost of Goods Sold | Material Cost | $1,492.97 | $0.3370 | 7.66% | 1
| Labor costs | $878.22 | $0.1982 | 4.51% | 2
| Total Logistics Cost | $437.29 | $0.0987 | 2.24% | 3

Decrease SG&A | Marketing Budget | $203.78 | $0.0460 | 1.05% | 4
| Sales Budget | $331.71 | $0.0020 | 0.05% | 9
| IT | $119.72 | $0.0020 | 0.05% | 9
| Customer Service | $61.51 | $0.0020 | 0.05% | 9

**Total Benefits**

- **$1,635.79**
- **$3,602.08**

**Improve DII**

- **Days in Inventory**
  - $962.43
  - *$0.0279* 0.63% 5

**Total EPS Improvement & Impact based on FY17 EPS of 4.400**

- **$0.7313** 16.62%

* one-time benefit
Mapping LOBs’ Initiatives to Enterprise Goals

**Example: Retailer**

**KEY GOAL:** Continue to improve guest experience and increase on-demand shopping

- **Store Operations**
  - Optimize store labor to support interconnected sales & fulfillment
    - Average wait time to confirm pick-up / delivery
    - % BOPIS
    - % add-on sales with BOPIS
    - % BOSS, % BODFS, % BORIS

- **Merchandising**
  - Improve the in-store customer experience
    - Sales per square foot
    - Transactions per hour worked
    - Sales per hour worked
    - P/T sales productivity
    - Labor costs dock-shelf

- **Marketing**
  - % BOPIS
  - % add-on sales with BOPIS
  - % BOSS, % BODFS, % BORIS

- **Supply Chain**
  - Sales per square foot
  - Transactions per hour worked
  - Sales per hour worked
  - P/T sales productivity
  - Labor costs dock-shelf

Examples of KPIs used to measure the objectives

**How does SCM help Store Operations implement initiatives?**
Mapping LOBs’ Initiatives to Enterprise Goals

Example: Retailer

**KEY GOAL:** Continue to improve guest experience and increase on-demand shopping

- **Store Operations**
  - Forecast sales & inventory plans to be in line with demand
  - % stockout losses
  - Inventory obsolescence
  - Markdown tracking & optimization
  - Comparable sales
  - CSAT

- **Merchandising**
  - Balance demand & supply through inventory visibility & optimization
  - % stockout losses
  - Inventory obsolescence
  - Supplier lead time
  - Inventory out of balance reporting
  - Sales availability

- **Marketing**

- **Supply Chain**

Examples of KPIs used to measure the objectives:

- % stockout losses
- Inventory obsolescence
- Markdown tracking & optimization

How does SCM help Merchandising implement initiatives?
Mapping LOBs’ Initiatives to Enterprise Goals

Example: Retailer

**KEY GOAL:** Continue to improve guest experience and increase on-demand shopping

- **Store Operations:**
  - Improve in-stock availability and utilize omni-channel platform to drive inventory turns
  - Examples of KPIs used to measure the objectives:
    - % stockout losses
    - Supplier lead time
    - % outbound transportation cost

- **Merchandising:**

- **Marketing:**

- **Supply Chain:**
  - Improve the customer experience by balancing demand & supply through inventory visibility & optimization
  - Examples of KPIs used to measure:
    - % total logistics cost
    - Supplier lead time
    - % stockout losses

How does SCM help Supply Chain implement initiatives?
Getting There From Here

Supply Chain in the Boardroom: Finance
Getting There From Here

• What matters most to lines of business – which financial metrics and operational KPIs?
• Use cases?
• **How** does SCM help achieve goals and financial performance?
• By **how much** does SCM improve financial performance?