

The background of the slide is a blue-tinted image showing a wireframe model of an airplane in flight over a landscape, with various industrial components like pipes and tanks visible in the foreground. The Lynnco logo is positioned at the top center, consisting of the letters L, Y, N, N, C, O each inside a square. The squares for 'Y' and 'N' are blue, while the others are black. The letters are white.

L Y N N C O

LYNNCO SUPPLY CHAIN SOLUTIONS

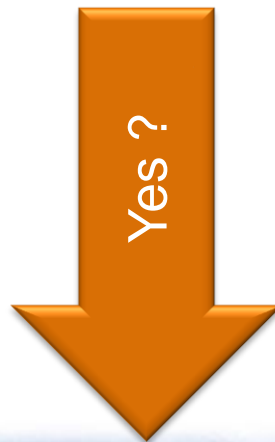
Purchasing Policies that Drive a Lean Supply Chain

Oklahoma Manufacturing Alliance Conference 2010

How Lean are your Purchasing Policies?

GUT CHECK

- ➡ Do your Suppliers handle the majority of the shipping arrangements for orders?
- ➡ Are your shipping costs bundled into the price of your purchased product?
(Prepaid Shipping)
- ➡ Are you carrying safety stock to cover “Late Ship” and “Short Ship” scenarios?
- ➡ Do you typically find out that a supplier has not shipped what you ordered or not shipped in time to meet your delivery deadline only when it doesn’t show up on your dock as expected?



How Lean are your Purchasing Policies?



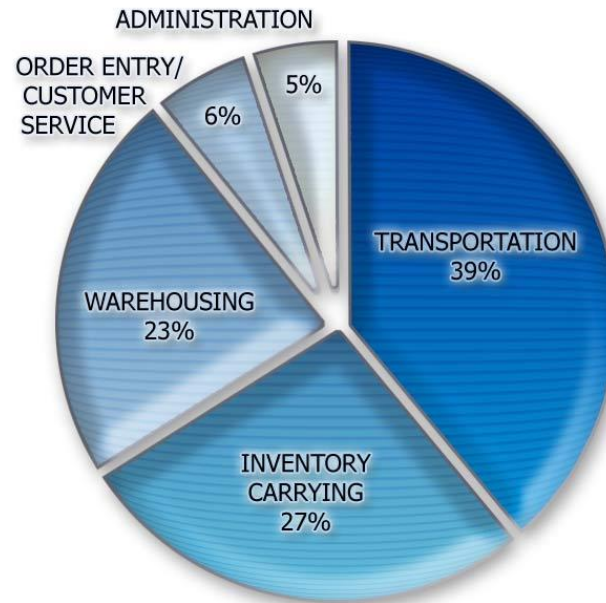
Three Major Contributors to the Supply Chain



Purchasing is often the first control point for Supply Chain bliss or chaos!

So, what's it gonna be?

There is a need for control... “but why” you ask?



- ➔ Purchasing policies heavily impact the three of the largest cost factors in the supply chain
- ➔ Purchasing is important. You are important!
- ➔ What you do everyday to govern the proper flow of materials and cost impacts many other functions downstream in the supply chain.

Common supply chains have an enormous amount of variability in time and costs as a result of:

- Lack of Order Receipt Acknowledgement
 - Late Order Fulfillment by Suppliers
 - Excessive Order Minimums
 - Late / Missed Pickups and Deliveries
 - Shortage of Product
 - Excess Product
 - Increased Expediting Activity
 - Potential Line Shut Down

Supply Chain Relationships

Typically has you Boss jumping on your desk ...



Supply Chain Relationships

And you crying like a baby .



How do most Purchasing Groups minimize this variability?

- Increase Safety Stock to cover the “What If” Scenarios
- Put logistics responsibility in the hands of the Suppliers
- **Hope for the best!**

How does this impact the Supply Chain?

- Increased Inventory Carrying Costs
- Increased Warehousing Costs
- Increased Obsolescence
- Higher Product Costs



MYTH:

Making sure my ordered product gets to me in perfect condition and on-time is the responsibility of my Supplier.

They are incented to do so because I make them arrange and pay for shipping as part of the product price.

HOT OFF THE PRESS:

Purchasing Policies containing Prepaid Terms
are the largest contributing factor in institutionalizing
supply chain chaos

FACT:

Suppliers who coordinate and pay for freight as a function of the product price,

Usually pad *shipping* costs by as much as **30-50%** to hedge against economic shifts in fuel, transportation, and raw material costs

FACT:

Once product leaves your Suppliers dock, it's yours!

Damaged Product? Lost Product?

Hits your financials regardless!

Yet you had no control over decisions that created the problem

FACT:

Prepaid and Add Terms?

Suppliers aren't concerned about shipping the most cost effective means because:

It's on your dime!

MYTH BUSTER:

Managing your Supply Chain is NOT
your Suppliers' core competency

Making good quality product IS their chief concern

However, entrepreneurship appreciates that
Prepaid terms creates a cushion for margins in your
product price and your Suppliers know it.

**While your costs are stable, you forgo the
ability to maximize savings and control your
supply chain at a hefty cost**

So whatch ya gonna do about it?

- Centralize Control of Supply Chain Activity with Suppliers
- Instill Disciplined Supply Chain Processes
- Be Proactive with Visibility

Throughout the order to delivery cycle.

➡ **These are the Driving Principles of Lean Purchasing Policies**

➡ Managing your Purchasing Policies

■ Control the Ordering Process

- Take responsibility of when and how much to order (Pull rather than Push)
- Reduce order lot sizes and set min/max levels to meet production needs
- Build accurate lead times into your ordering cycle

➡ Managing your Purchasing Policies

■ Proactively Verify Supplier Fulfillment Intent – **Every Time**

- Verify they received and have processed your order
- Gain early knowledge of short ships and late ships
- Closely manage and measure expediting
- Accurately measure Supplier fill rates

■ Manage Your Purchasing Policies

- Take Control of ALL Shipping Activity for Suppliers
 - Unbundle Prepaid Shipping from Purchase Agreements
 - Centralize the Handling of Shipping Arrangements
 - Establish a Disciplined Expediting Policy
 - Proactively Track and Trace All Shipments

➡ Gaining Proactive Supplier Visibility

- **Know what's happening before it happens:**
 - Is my Supplier shipping what I ordered?
 - Is my product going to arrive when expected?
 - Are my product and shipping costs as optimal as can be?
 - Am I holding my Suppliers accountable?
- Allows time to fix issues before they become critical problems
- Provides a forum for continuous improvement
- Lots of technology available to Manufacturers today

Lean Purchasing Policies

Proactive Order Fulfillment Verification

Expand to Search Orders									
Pending	Critical	Cancelled	Ready/Shipped	Order Resolution			Ship Together	Save	
Select	Order#/Line#	Status?	Item#/Desc	Order Dates	Ship Qty / Date ?	Packaging?	Characteristics?	Origin/Destination	?
<input type="checkbox"/>	7741134 030	SHIPMENT INITIATED	WHVP7 WHVP74 WHI-500 LAND BLADE	Shipping 02/13/2007 Delivery 02/17/2007	Ordered/Shipping 15 / <input type="text"/> Date <input type="text"/> Time 12:00 AM - 12:00 AM	Pieces <input type="text"/> Packaging PACKAGE	Weight 1000 Class 250 <input type="checkbox"/> Expedite	San Pedro CA Victoria TX	Details Copy Split
<input type="checkbox"/>	7741133 010	SHIPMENT INITIATED	WHISP WHISPER BLADE BOLTS ONLY-	Shipping 02/13/2007 Delivery 02/17/2007	Ordered/Shipping 30 / 30 Date 04/01/2007 Time 12:00 AM - 12:00 AM	Pieces <input type="text"/> Packaging PACKAGE	Weight 500 Class 92.5 <input type="checkbox"/> Expedite	San Pedro CA Victoria TX	Details Copy
<input type="checkbox"/>	7741134 060	SHIPMENT INITIATED	WHVP0 WHVP02 WHI-100 MARINE BLA	Shipping 02/14/2007 Delivery 02/17/2007	Ordered/Shipping 54 / 54 Date 02/14/2007 Time 08:00 AM - 05:00 PM	Pieces <input type="text"/> Packaging CRATE	Weight 450 Class 60 <input type="checkbox"/> Expedite	ELLISVILLE MO Kilgore TX	Details Copy
<input type="checkbox"/>	7741134 040	SHIPMENT INITIATED	BOLT BOLT PACKAGES FOR BLADE S	Shipping 02/16/2007 Delivery 02/20/2007	Ordered/Shipping 13 / <input type="text"/> Date 02/16/2007 Time 08:00 AM - 05:00 PM	Pieces <input type="text"/> Packaging NONE	Weight <input type="text"/> Class 60 <input type="checkbox"/> Expedite	San Pedro CA Fresno TX	Details Copy Split
<input type="checkbox"/>	7741134 050	SHIPMENT INITIATED	WHVP0 WHVP04 WHI-100 LAND BLADE	Shipping 02/15/2007 Delivery 02/19/2007	Ordered/Shipping 68 / <input type="text"/> Date 02/15/2007 Time 08:00 AM - 05:00 PM	Pieces <input type="text"/> Packaging NONE	Weight <input type="text"/> Class 60 <input type="checkbox"/> Expedite	CENTRALIA IL Fresno TX	Details Copy Split
<input type="checkbox"/>	7741134 010	SHIPMENT INITIATED	WHVP7 WHVP77 WHI-100 LAND/MRINE	Shipping 02/18/2007 Delivery 02/21/2007	Ordered/Shipping 28 / <input type="text"/> Date 02/18/2007 Time 08:00 AM - 05:00 PM	Pieces <input type="text"/> Packaging NONE	Weight <input type="text"/> Class 125 <input type="checkbox"/> Expedite	San Pedro CA Victoria TX	Details Copy Split

- Suppliers log into website to retrieve Orders or verify receipt of trigger
- Suppliers verify the amount of product to be shipped and when they intend to ship
- Manufacturers able to proactively identify that Supplier received trigger and short ships/late ships/no ships
- Provides for Order Fill Rate Measurement by Supplier

Part Level Visibility – “Where is it right now?”

Customer Manage Shipments

Latest Pick-Up From
06/18/2004
To
06/20/2006
Find

Type = Shipment
Status = Delivered
Reference = 90816
11 Shipments displayed.

Shipment	Or	Latest Pick-Up	Destination	Latest Delivery
00816433MG	Wilmington	03-15-2005	Broken Arrow,OK	03-17-2005
00821891MG	Wilmington	03-15-2005	Broken Arrow,OK	03-17-2005
00821980MG	Wilmington	03-15-2005	Broken Arrow,OK	03-17-2005
00822080MG	Wilmington	03-15-2005	Broken Arrow,OK	03-17-2005
00824154MG	Wilmington	03-15-2005	Broken Arrow,OK	03-17-2005
00824455MG	Wilmington,OH	03-15-2005	Broken Arrow,OK	03-17-2005
00824761MG	Wilmington,OH	03-15-2005	Broken Arrow,OK	03-17-2005
00828223MG	Wilmington,OH	03-15-2005	Broken Arrow,OK	03-17-2005
00828727MG	Fayetteville,NC	12-27-2005	Fayetteville,AR	12-28-2005
00831607MG	Wilmington,OH	02-27-2006	Broken Arrow,OK	02-28-2006
00834389MG	TULSA,OK	04-14-2006	TULSA,OK	04-17-2006

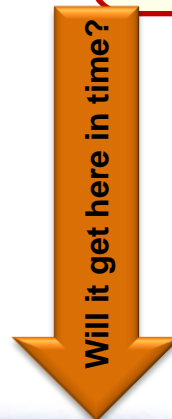
Is there enough?

➡ Part Level Visibility

Shipment	Origin	Latest Pick-Up	Destination	Latest Delivery
D-00856248MG	Chicago,IL	03-20-2007	Tulsa,OK	03-24-2007



Items						
Item ID	HazMat	Class	NMFC	Weight	Act Qty	Descr
46141	no	55.0		65.0 lb	78.0	MULTIFLR Transition Oak 36
90816	no	85.0		225.0 lb	50.0 Box(s)	9 inch screws
40120	no	50.0		376.0 lb	19.0 Box(s)	Carpet Trim 1.375X72 Mtl Deco



Lean Purchasing Policies

Shipment Summary

Locations

Origin	Destination	Bill To
Wilmington Plant 185 Park Drive Wilmington, OH USA 45177 Appt: 03/15/2005 12:00AM to 03/15/2005 12:00AM	Retail Store 2 2408 S SweetGum Ave Broken Arrow, OK USA 74012 Appt: 03/17/2005 12:00AM to 03/17/2005 12:00AM	Lynnco Supply Chain Solutions PO Box 2170 Broken Arrow, OK USA 74013-2170 Contact: LynnCo TMG phone: 918-664-7490 fax: 918-664-7493 Payment terms:

Items

Item ID	HazMat	Class	NMFC	Weight	Act Qty	Descr
22658AB	no	100.0		40.0 lb	40.0 Unit(s)	PLATE-CLUTCH

Events

Type	Location	Status	Target Date	Current Date	Actual Date
Pickup	Wilmington, OH USA	Completed	02/27/2006 12:00 PM		02/27/2006 11:00 AM
Drop	Broken Arrow, OK USA	Pending	02/28/2006 8:00 AM	2/28/2006 7:30 am	

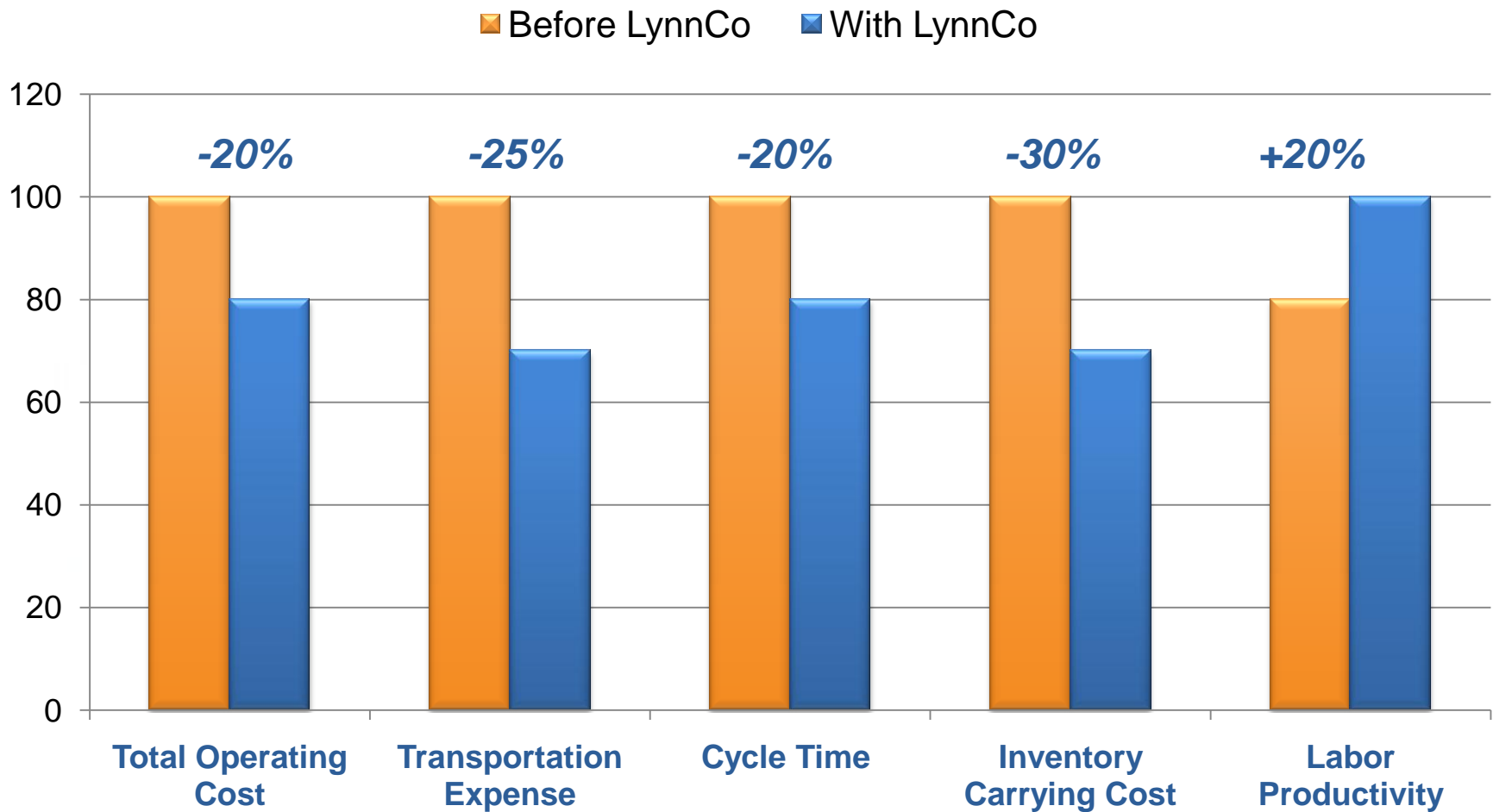
Other

Services	No services requested.
References	1. 00831601MG (BOL) 2. 1141098313548 (BOL) 3. 00831600MG (Order Number)
Rate Information	Customer rate details unavailable.
Special Instructions	No special instructions.
Contact	No contact specified.

Rate Information	Status: In Transit Carrier Name: Vitran Express SCAC: VITR Service Days: 3.0 Total: \$69.78
Special Instructions	No special instructions.
Contact	No contact specified.

Performance Benefits

✚ Typical improvements that are achievable. . .



Don't Believe Me I CAN Prove it!

Morton Buildings

Morton, IL

**“Unbundling Prepaid
May 2010 Case Study”**

Constructors of high-quality, post-frame structures



THE STIMULUS:

- ➡ New Competitors entering market drove down product pricing.
 - Morton's margins eroded
 - Sales dipped
 - Market share decreased
- ➡ Required Morton to focus on ways to lower finished good price yet maintain same quality and service.
- ➡ Lowering the landed cost of raw materials turned attention to Purchasing policies and Supply Chain activities.

THE BIG ISSUE:

Morton had little to no fiduciary oversight or visibility of raw materials purchased

- Morton Building's buyers negotiated and contracted materials on a lowest unit cost structure with all inclusive of freight causing difficulty in determining shipping costs from actual product price.
- Suppliers pushed product with no regard of Morton's production need
- Lack of reporting on historical metrics on transportation, storage, or inventory carrying costs
- No in-transit visibility of inbound materials; increased expediting, and ate up valuable resource time tracking product to avoid production line shut downs.
- Suppliers controlled shipping decisions with no regard to Morton fleet capacity, optimal mode opportunities, and best cost assessment.

THE BIG AH-HA:

1. Inflated product pricing 2. Inventory overstocking 3. Expensive shipping costs



Inflated Finished Good Price in the Market

WHERE TO BEGIN?

- ➔ Institute Discipline, Control and Supplier Accountability through Lean Oriented Purchasing Policies
- ➔ One commodity at a time
- ➔ Started with Steel Coil
- ➔ \$10 Million Annual Purchase
- ➔ Big Impact, Quickly!

6 STEPS TO SUCCESS.

Step 1: Established a Baseline.

Quantified Current Landed Cost of Steel Coil, Order Cycle Time, and Usage Rate

- Weekly Steel Consumption
- Cost of Steel on hand
- Steel ordering minimums and frequencies
- Ordering lead times
- Total Landed Cost Factors
 - a. Product Cost
 - b. Inventory Carrying Costs
 - c. Storage Cost
 - d. Safety Stock to maintain required service levels

Step 2: Profiled Shipping Requirements

- Type of Equipment Required
- Shipment Lead Times
- Common Shipping Lanes and Transit Times
- Shipment Frequencies
- Common Carriers Available
- Shipping Costs

Step 3: Synchronized Ordering Cycle with Consumption Rate and Shipping Timeframes

Defined new purchasing requirements – inventory needs, lot sizes, order minimums

Step 4: Renegotiated Purchasing Agreements with Steel Suppliers

- Converted Blanket Purchase Orders to Discreet Purchase Orders
- Adjusted Purchasing Terms
- Established Product Price without Shipping, Handling, and Administrative Functions

Step 5: Instituted New Shipping Policy

Morton coordinating and paying for all shipping of materials from Suppliers to their facilities

Step 6: Developed Supplier Scorecard and Feedback Procedures

Benefits Realized.

- ➔ Commanding ownership of prepaid inbound shipping and drive improvements in:
 - Monitoring Supplier 1st time fill rate
 - Accountability for Expediting Frequency and Cost
 - Increased Inventory Turns
 - Proper allocation and accuracy of freight charges
 - Visibility of materials through transport
 - Lower overall raw materials cost and related freight costs
- ➔ Separating the cost of transportation from the piece price allowed Morton Building's purchasing group see through pricing to ascertain a true unit cost and create a better negotiating platform
- ➔ Obtained control of a larger freight volume and spend to work with for future carrier negotiations and supply chain optimization.
- ➔ Enabled a solid, scalable platform for future expansion of a successful inbound demand-driven ordering policy

A Real Case Study

But the Real Proof is in the \$\$\$

▪ Raw Material cost reduction of 6%	\$	600,000
▪ Inventory carrying cost reduction of 35%	\$	583,000
▪ Material handling and storage cost reduction of 4%	\$	202,000
▪ Safety stock reduction of 7%	\$	174,000
▪ Transportation cost reduction of 32%	+	\$ 320,000
		<hr/>
		\$ 1,879,000
		Annual Savings

WHEW....IT WAS WORTH IT!

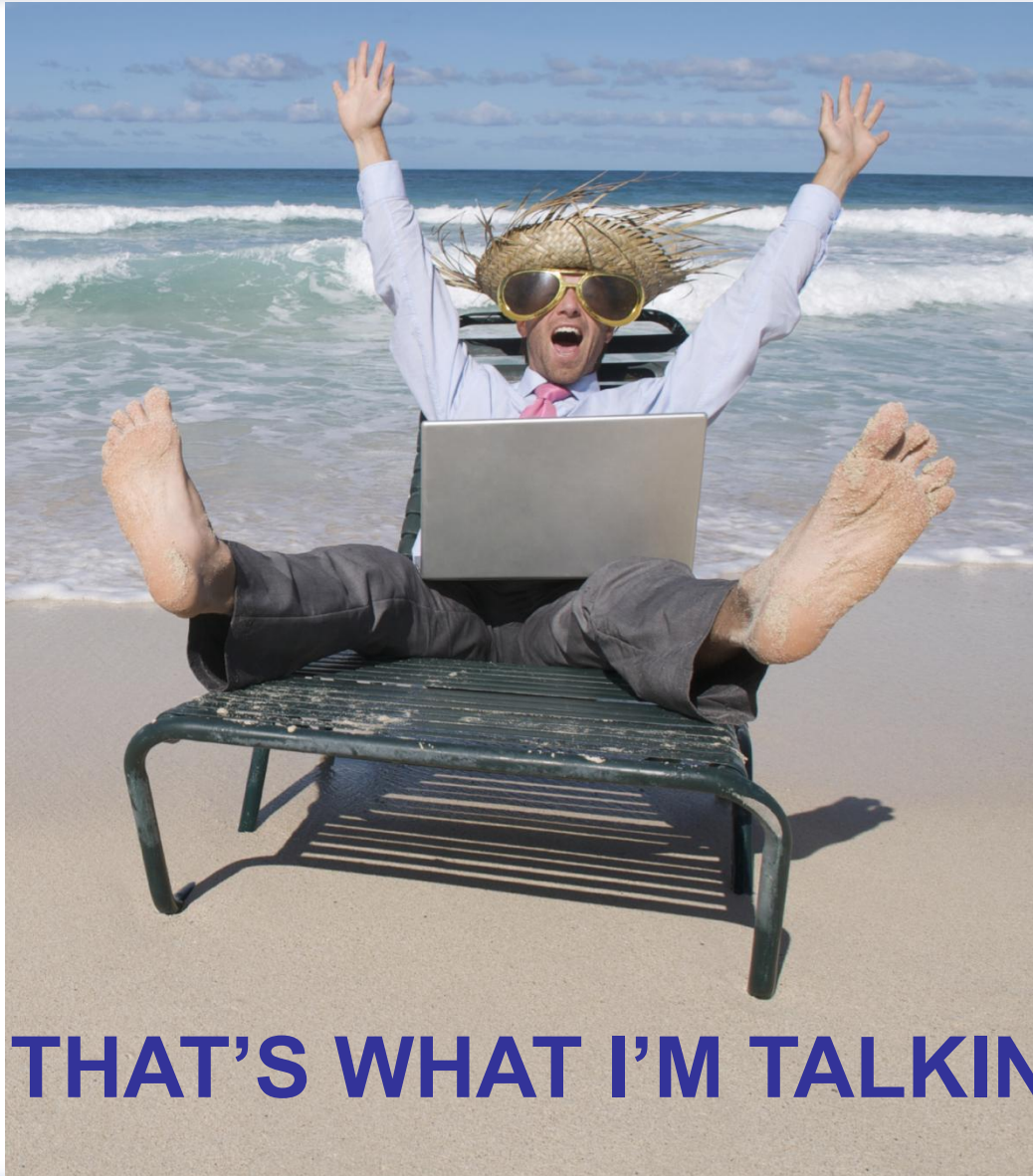
- ➔ Applying the same results to Morton Building's entire purchase spend of \$82M resulted in a significant supply chain cost reduction.
- ➔ Over the next eight months, Morton Building successfully rolled out the purchasing policy initiative to all product lines

**Achieving an annual supply chain savings in excess of
\$15M**

Supply Chain Chaos?



Supply Chain Bliss!



NOW THAT'S WHAT I'M TALKIN' 'BOUT!

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