



Actual Full Project Report

Case Study

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EXECUTIVE SUMMARY:

As requested in the Statement of Work to avoid being disqualified as a supplier to one of the largest companies in the world (Client's Customer), 3B at the conclusion of the first two weeks of the engagement not only defined, presented and signed off a Short and Long Term plan, but also has identified a fulfillment date achievement altering installation timeframe reduction – a single most important aspect not controlled by 3B'S CLIENT – by conducting a cross-functional technical review of Client's Customer and 3B'S CLIENT processes.

So, with the goal not only being to save Client's Customer business and reinvent 3B'S CLIENT in the process, but also to find immediate and impactful ways to positively effect EBIDTA, 3B embarked on assisting CLIENT with their Sourcing/Supply Chain and Pricing Strategies.

STATEMENT OF WORK and DELIVERABLES

3B Supply was engaged in a project with CLIENT on Dec 13, 2010 to come up with a Short and Long Term plan to be presented to Client's Customer in 8 days. Client's Customer, Fortune 50, put 3B's CLIENT on notice of being disqualified for quality, fulfillment (schedule misses), and other violations and was given one last chance to present a redeemable Short and Long Term plan in two weeks before being officially removed as a qualified supplier. Client's Customer accounts for 80% of 3B'S CLIENT's business and losing it would prove costly in many ways. Additionally, 3B'S CLIENT was due to delivery work on 2 units due in less than 4 weeks, with Client's Customer already warning of a more compressed than usual timeline to complete the job – a tall challenge for even the best vendors. Any Quality non-conformances or delivery misses would result in disqualification.

3B'S CLIENT, and 3B team put together and presented to Client's Customer a detailed plan within the prescribed timeline and oversaw the completion of 2 aforementioned units with 100% success. The plan presentation was accepted by designated Client's Customer personnel with a few additional suggestions. Client's Customer was very satisfied with the newly acquired strategic and tactical direction 3B'S CLIENT was now going towards. Client's Customer explicitly voiced their renewed sense of confidence in 3B'S CLIENT as a result of 3B's engagement.

The get well plan focused on these specific Short and Long Term areas:

Sort-Term

1. Improved Daily communication, single point of contact
2. Focus on quality of work
3. Hitting the delivery dates
4. Using Client's Customer-prescribed processes
5. Revamp 3B'S CLIENT Brand Identity
6. Update documentation
7. Labor loading plans
8. Process and inspection checklists
9. Contingency planning.

Long-Term

1. Organizational Changes– single point of contact/hire & train General Manager
2. CAD improvements
3. SOP implementations
4. Labor planning changes
5. Work flow planning and design changes
6. Lean techniques for the shop
7. Study competitors' best practices
8. Customer Web-portal
9. Employee cross training

(Note: a more detailed presentation of all plans is available upon request)

Over the past three years Client's Customer has moved from a single source arrangement with 3B'S CLIENT to having 3 qualified and 2 more "on-deck" vendors, 3B'S CLIENT could no longer enjoy being a sole supplier. Since this meant less total revenues in 2011, 3B team has

developed additional activity plans to help 3B'S CLIENT close the EBIDTA gaps – specifically reinventing 3B'S CLIENT's Sourcing and Pricing initiatives which we will discuss in their respective sections below.

SOURCING ACTIVITIES

At the onset of any Sourcing activities 3B undertakes two key processes:

1. Determine existing leverage with incumbent suppliers (typically quickest to implement and highest reward)
2. Review current macroeconomic raw material product cost trends to determine the general direction of the product pricing in the next 12 months

Our analysis of the current supplier performance and leveraging yielded several opportunities that could be immediately harvested. 3B has temporarily segregated negotiating and day to day contact duties with 3B'S CLIENT's top 3 suppliers – [REDACTED] - that accounted for 70%+ of the spend. All three suppliers informed 3B'S CLIENT of a 2011 price increase prior to 3B's engagement in the project.

3B uses data published by US Bureau of Labor Statistics to analyze macroeconomic cost of goods trends. As it turned out, while the overall US GDP has stayed mostly inflation-free, there has been significant price inflation in industrial commodities over the past year. Producer's Price Index is used to track these trends and is published on a monthly basis. The PPI for Industrial Commodities went up 7.8% during 3 months period of Nov 2010-Feb 2011 (and another 2% from Feb 2011 to March 2011), indicating that we are experiencing inflationary commodity markets. If product cost escalation weren't dealt with, 3B'S CLIENT's COGS as percentage of revenues would likely rise throughout the year.

3B has been able to achieve these results for 3B'S CLIENT:

- Price decrease savings of 5-23% versus initial 2011 product prices
- Payment terms improvement to 2% 10 Net 30
- Alternate, but acceptable, less costly material grades 3B'S CLIENT can use to better compete on quotes or reap higher current orders' Contribution Margins
- Consignment at CLIENT's option
- Transition of leverage from suppliers to 3B'S CLIENT
- 3B'S CLIENT Customer-facing technical support
- Installation improvements, training, and associated documentation

In the matter of several months, 3B'S CLIENT was able to take advantage not only of better financial terms, but also put itself in a position of strength with its top vendors without jeopardizing continuing supply of materials.

PRICING ACTIVITIES

While performing our initial analysis, 3B uncovered an uncommonly significant amount of time taken up by work on customer quotations. Also, as part of the change management process, a dissatisfaction with current state had to be agreed upon by the key personnel within 3B'S CLIENT – a commonly missed deliverable; especially in case of a business already enjoying very healthy contribution margins. In our analysis of pricing guidelines and best practices we identified 3 key areas, each described below in greater detail:

1. Opportunities and a mechanism of adjusting pricing for Client's Customer orders
2. Reducing pricing quote time-durations
3. Improving Gross Margins on quoted product by customer segmentation

These Key areas materialized themselves into the following steps of the overall project plan:

Client's Customer gap closure	SOP for Pricing
Quoting Standards	Pricing for rush orders vs. planned
Quoting Standards	Pricing for onsite installation
Quoting Standards	Simplify Pricing program
Quoting Standards	Expense recovery for Install and Design travel costs
Quoting Standards	Capture lost Quote data- Quote given order not received
Quoting Standards	Market Analysis on Pricing levels
Quoting Standards	Develop STD quote form for all CLIENT branches to use
Quoting Standards	Understand Material cost changes and labor rates

#1: Agreement was struck with Client's Customer buyer to review increased costs – overtime, higher labor and material content – and adjust issued PO values to better reflect 3B'S CLIENT-acceptable profit margins. As an example, PO value on unit completed in March 2011 was increased by 7%.

#2: 3B'S CLIENT has become known as its niche industry pricing barometer, which resulted in many quotations being worked on that had questionable chance of turning into real orders. Potential customers used 3B'S CLIENT as a price checking or determining service by taking 3B'S CLIENT quotes and using them for their own needs as industry intelligence. In reality, it may take as long to complete a \$50K quote as it takes to complete \$1K quote. Switching to precise to approximate route on quote requests that weren't from current customers still allowed 3B'S CLIENT to complete work in a fraction of the time, with a better potential

#3: Most importantly we identified areas (many non-Client's Customer customers) where 3B'S CLIENT was underpricing itself below market. Gathered intelligence confirmed that 3B'S CLIENT prices were in many cases less than competitors. For many smaller, but profitable jobs, resulting price can be improved by 20-40%.

By introducing similar, but less costly materials, 3B'S CLIENT now was in a position to offer good, better, best pricing model with little effort on larger quotations where 5-10% would make a difference between winning and losing a quote. In addition, given the cost-plus pricing

structure, it was important to adjust current pricing models to prevent lower sourcing costs from being passed on to customers instead of to the bottom line.