E-SOURCING: THE FUTURE AIN’T WHAT IT USED TO BE

October 30, 2009
LGO/SDM Alumni Web Seminar
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College at the U.S. Naval Academy

7 years in the U.S. Navy
- Flew A-6 Intruders from the USS America for 4 years
- Spent 2 years in the Mojave Desert in a test squadron

2 years MIT/Sloan

11 years with Dell
- 1.5 years as a production manager starting new factory
- 1 year as a senior material manager for another factory-led global supply chain redesign
- 2 years as Director of Process Engineering
- 1.5 years as Director Demand/Supply Planning
- 3.5 years leading Dell’s desktop factory in Tennessee
  - Led Dell’s first brownfield lean conversion
- 1.5 years as GM of offline U.S. Consumer business

Joined MFG.com in May 2009 as COO
MFG.com is the only place manufacturers can source real-time in a “true” marketplace setting.

- Founded in 2000
- Global Company headquartered in Atlanta, with operations in Shanghai, Munich, Paris, Geneva and Bangalore
- Marketplace available in 7 languages, over 50 currencies
- Serves over 300 manufacturing categories
- Over 200,000 members in 50 countries
- Suppliers pay an annual subscription to participate in the quoting and collaborative process with buyers

“One of the 15 companies that will change the world”
-CNNMoney.com
E-Marketplaces drive efficiencies into the discovery, logistics and collaborative phases of the sourcing and procurement processes, taking less time and reducing costs.

**Procurement:** Buying from Known & Unknown Sources to serve the product development & quality needs.

**Sourcing:** Traditional Supplier Discovery, Selection and Engagement; find the right source with the right expertise at the right price with the right standards.
E-MARKETPLACE PRIMARY VALUE PROPOSITION

- E-Sourcing Marketplaces give sourcing teams direct, real-time access to available markets and potential sources.
- This access equals True Cost Information and Intelligence (TCII).
- TCII enables sourcing teams to make sound decisions to support manufacturing initiatives more quickly, and to more efficiently adjust to manage risks to their supply chains.
E-MARKETPLACE BUSINESS MODEL AND BENEFITS

Buyer Benefits

- Diligent Sourcing
- Reduce Costs
- Global Supplier Discovery
- Minimize Time to Market

MFG.com Marketplace

- Request For Quote ("RFQ")
- Intelligent Matching
- Collaborate
- Diligence and Negotiation
- Transact
- Build Community Trust
- Cultivate Long-Term Relationships

Supplier Benefits

- Expand into New Markets
- Profitable Customer Relationships
- Internet Marketing Engine
- Access International Markets
FACTORS DRIVING E-SOURCING ADOPTION & EVOLUTION

- Supply Chain Risk Management (particularly, supplier failure and volatile materials/logistics costs)
- Business Profitability (balanced efficiency and quality propositions)

Determining where and with whom to manufacture is becoming more critical in shaping the future of sourcing, purchasing and spend options. E-Marketplaces offer increased speed in locating and engaging best-of-breed supplier sources, as well as transparency through the collaboration stages of the sourcing cycle.
MFG.com Buyers indicate the following Supply Chain Risks by level of importance:

1. Volatile Material Costs
2. Supplier Stability
3. Shipping Costs
4. Natural Disaster
5. Pandemic

In the past 3 months, has your company experienced a significant Supply Chain Risk that caused you to investigate or select new manufacturing sources?

Across samplings, manufacturers indicate supplier stability and commodity/logistics cost volatility as primary drivers.

Source: MFGWatch Sourcing Survey of North American Manufacturers, October '09
Perceptions of the risks that matter most for those managing a global supply chain have shifted in the past 12 months.

Categories that relate to supplier stability - failure, quality, IP security and infrastructure - dominate perceived risks.

Despite reduced energy costs, price volatility still a major driver.

Source: AMR Research, Supply Chain Risk 2008 - 2009, May’09

<table>
<thead>
<tr>
<th>Top Supply Chain Risks Today</th>
<th>Change in Level of Risk From One Year Ago</th>
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<tbody>
<tr>
<td>Supply failure</td>
<td>28% 65% 7%</td>
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<tr>
<td>Commodity price volatility</td>
<td>45% 43% 12%</td>
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<tr>
<td>Internal product quality failures</td>
<td>24% 70% 6%</td>
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<tr>
<td>Lower consumer spend</td>
<td>63% 35% 2%</td>
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<tr>
<td>Regulatory compliance</td>
<td>29% 67% 5%</td>
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<tr>
<td>Supplier product quality failures</td>
<td>35% 59% 5%</td>
</tr>
<tr>
<td>Volatile energy costs</td>
<td>41% 38% 20%</td>
</tr>
<tr>
<td>IP infringement</td>
<td>24% 73% 3%</td>
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<tr>
<td>Volatile transportation costs</td>
<td>35% 50% 15%</td>
</tr>
<tr>
<td>Volatile labor costs</td>
<td>22% 75% 3%</td>
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<tr>
<td>Supply chain security breaches</td>
<td>28% 61% 11%</td>
</tr>
<tr>
<td>Immature physical infrastructure</td>
<td>12% 78% 10%</td>
</tr>
<tr>
<td>IT risks</td>
<td>23% 67% 10%</td>
</tr>
<tr>
<td>Shortage in management talent</td>
<td>14% 71% 16%</td>
</tr>
<tr>
<td>Natural disaster</td>
<td>12% 76% 12%</td>
</tr>
</tbody>
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Legend: Increased | Same | Decreased
Manufacturing Buyers intend to significantly add to their stable of acceptable suppliers over the final quarter of ‘09

Source: MFGWatch Sourcing Survey of North American Manufacturers, October ‘09
E-Marketplaces enable purchasing professionals to be efficient conduits between internal design and external production sources.

The “sweet spot” of e-Sourcing.

E-Marketplaces can improve efficiencies and lower costs in Aftermarket Support & MRO.
Price reduction is predominately a result of negotiation, with specific margins as the sole litmus test.

Cost reduction is a more complex equation, which must consider total cost of ownership - spend, quality, value, and other risk-reward qualities necessary for stable and sustainable supply chain management (total cost of ownership).

Buyers often overlook meaningful cost reductions with suppliers by focusing on the obvious, high-cost products, while most suppliers build their most profitable margins into the lower-cost products or assemblies.

When fully realized, E-Marketplaces better provide total landed cost (TLC) assessment via “live benchmarking” and cost transparency.
A Fortune 500 food and confectionary manufacturer with significant maintenance, repair and operations (MRO) requirements across several plants in North America.

Supplier due diligence, test batches of repair parts to selectees, performance & quality assessment.

Currently sourcing majority of MRO manufacturing support through e-marketplace, approximately 150 projects awarded/managed at an average cost reduction of 60%.

Generally, MRO hasn’t been sourced through open marketplace channels because of its time-critical nature. E-Marketplaces introduce efficiencies and cost advantages to the MRO processes and provide cost and efficiencies to support MRO objectives.
A Fortune 500 household and personal consumable products manufacturer with internal OEM manufacturing capacity

Internal manufacturing had become less competitive

Utilizing e-marketplace tools, identified and engaged external suppliers specializing in required products at more competitive pricing

Refocused their internal manufacturing capacity to more specialized activities (innovation/R&D/product development), saving over 50 manufacturing jobs
MFG.COM CASE STUDY - 2009

- Fortune 100 manufacturer of electronic and electrical equipment for the defense, aerospace and industrial markets
- Initially pursued a corporate directive to source to low cost countries (LCCs) in Asia
- Sourced products to a mix of LCCs and domestic supplier prospects
- Realized 26% reduction of costs through onshoring to domestic (US) sources