

THE ORIGINAL SUPPLY CHAIN CLASSIC



Denise Odenkirk
VP, Clinical 3PL
OM Healthcare Logistics

May 2009

What is Good Performance?

2

- You have a 99% Fill Rate

- Is this Good?

99% Fill Rate for a DC

3

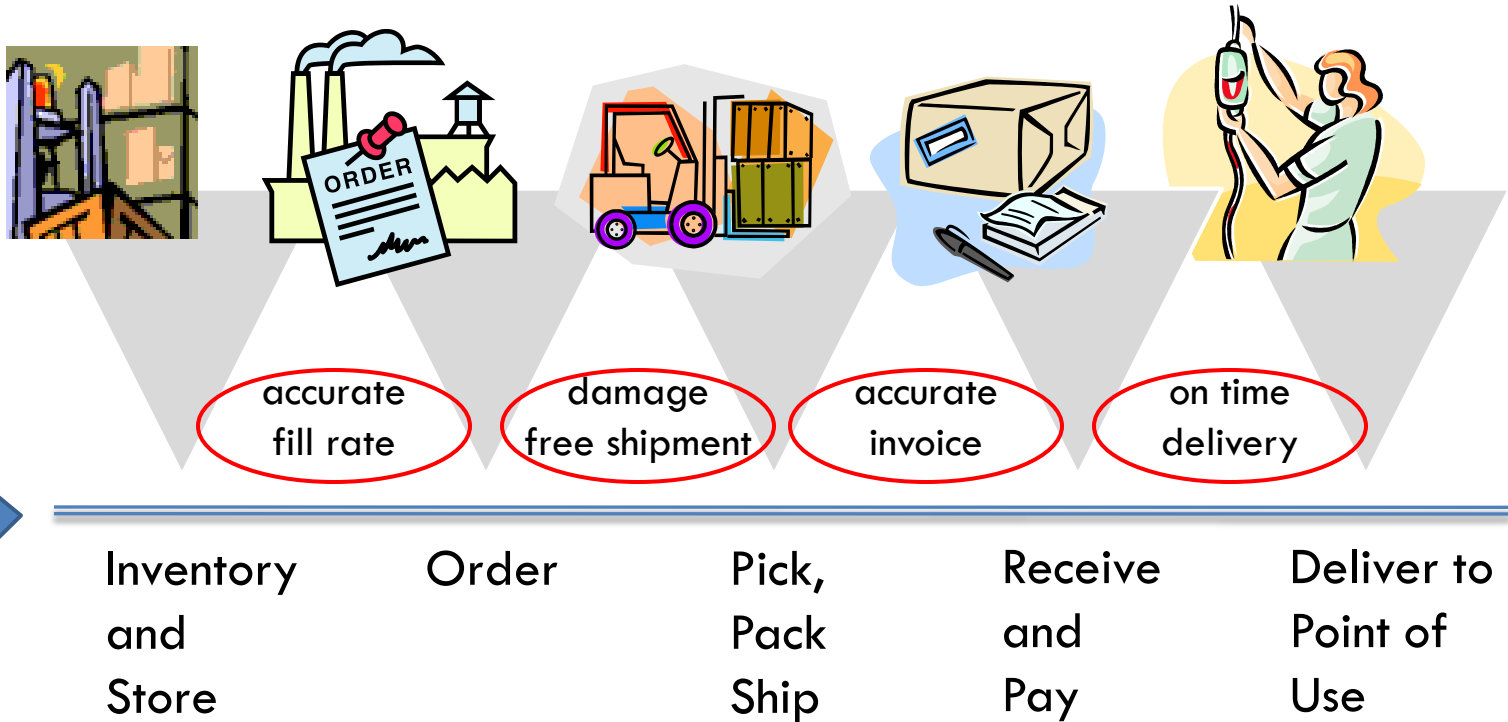
Fill Rate alone does not provide a “complete view” of supply chain performance

- Kinds of Behavior Created
 - ▣ Expedited orders from manufacturing
 - ▣ Airfreight shipments
 - ▣ Large inventories on hand to prevent OOS
- Does not Consider
 - ▣ Did it arrive when the customer wanted?
 - ▣ How much did it cost to fill the order?
 - ▣ Customer complaints (quality or accuracy)

Measuring Good Performance

4

Measuring end-to-end supply chain performance requires the evaluation of multiple metrics



Areas of Impact ▶

Traditional Perfect Order Definition

5

- Percentage of orders delivered
 - ☑ to the right place
 - ☑ with the right product
 - ☑ at the right time
 - ☑ in the right condition
 - ☑ in the right quantity
 - ☑ to the right customer
 - ☑ with the correct invoice

- Failure to meet any of these conditions results in a less than perfect order



SMI's Definition of Perfect Order

6

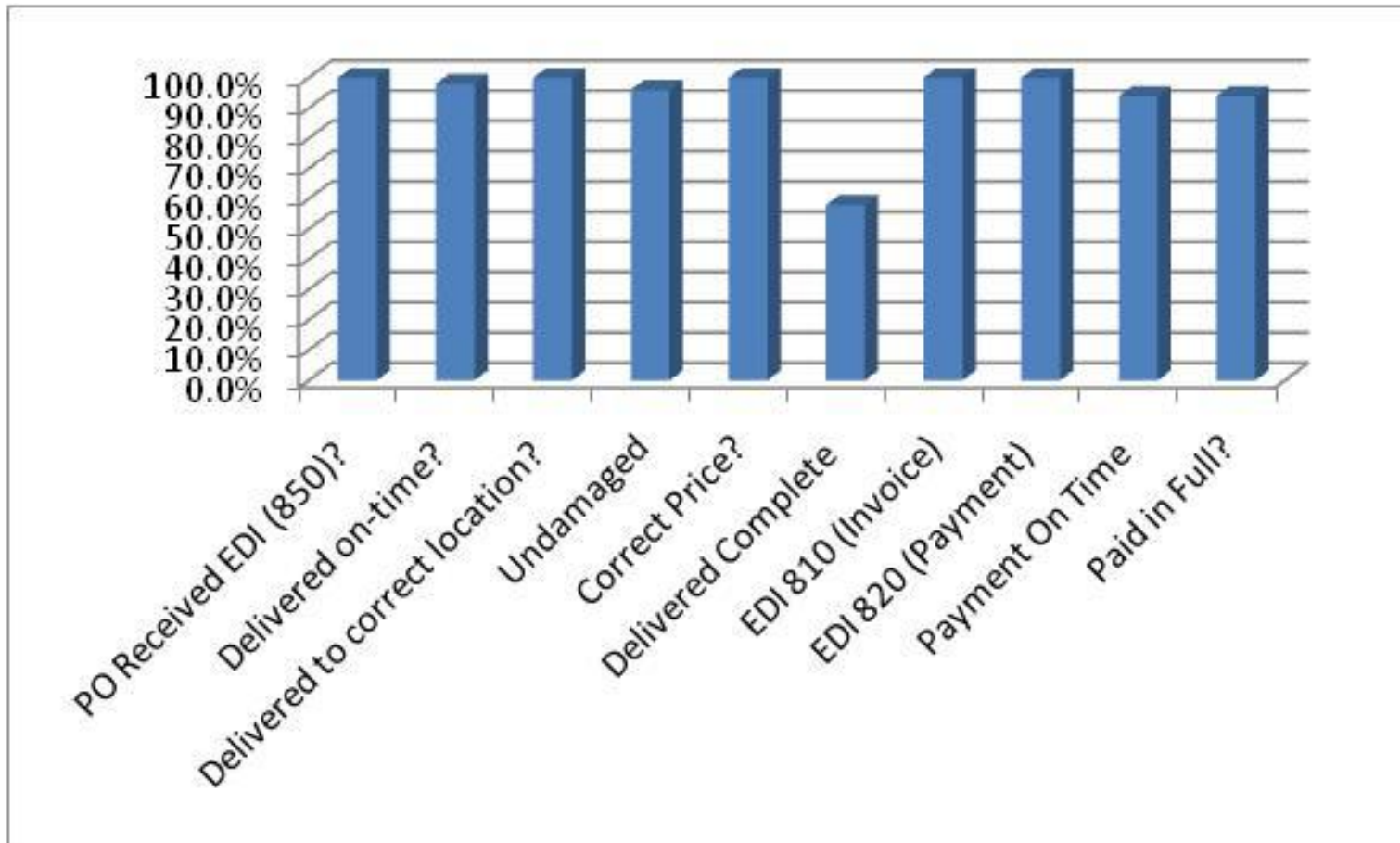
- A purchase order processed electronically (from order to payment) without human intervention, which is delivered to the correct location, on time, undamaged, at the correct price, with the desired quantity, on the first attempt.



SMI's Perfect Order Measurement

7

Summary by Element – By Month



Best Practice for Measurement

8

Perfect Order Index (POI)



Best Practice for Measurement

9

Perfect Order Index (POI)

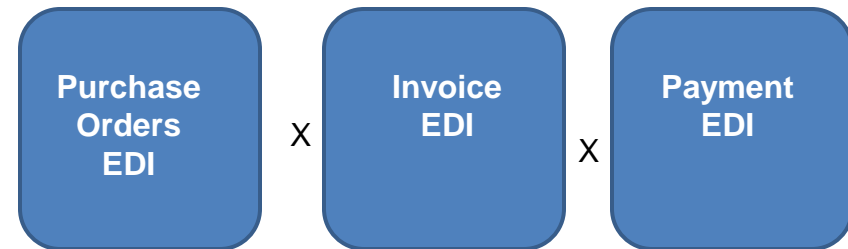


POI with Electronic Transactions

10

□ Electronic Transactions:

- 80 percent POs EDI
- 80 percent Invoices EDI
- 80 percent Payment EDI



95 % X 95 % X 95 % X 95 % X 80 % X 80 % X 80 %

= 65.2 percent!

POI of 65.2 percent!

11

Ouch, That Hurts!



POI stats can be pretty brutal.

Even solid supply chain operations are likely to see numbers below 50%.

POI Benchmark

12

**Most Manufacturers
Are Operating at
Less than an 80%
Perfect Order Index ***

** Source: AMR Research*

Nobody is Perfect. Why Strive for it?

13

Three Reasons

- ❑ Customer Satisfaction
- ❑ Operating Efficiencies
- ❑ Competitive Differentiation



Industry Pain Points

14

70-80% of all invoice errors are directly related to inaccurate product information.

- Healthcare e-Business Collaborative

Cost of a purchase order at a hospital ranges between \$12.27 to \$60.08

- HIDA's Hospital Procurement Study (2005)

\$2 to \$5 billion are lost each year due to supply chain information inefficiencies.

- HCEC Workshop

The estimated cost to research and correct a single order exception ranges from \$15 to \$50 per error.

- Healthcare Distribution Management Association

POI Makes a Difference

15

- **In 2007 the 25 companies with the best supply chains greatly outperformed the S&P 500, producing an average total return of 17.9 percent, compared to 3.5 percent for the S&P.**
- **Companies with perfect order rates of 80 percent or higher are three times more profitable than companies with perfect order rates of 60 percent.**

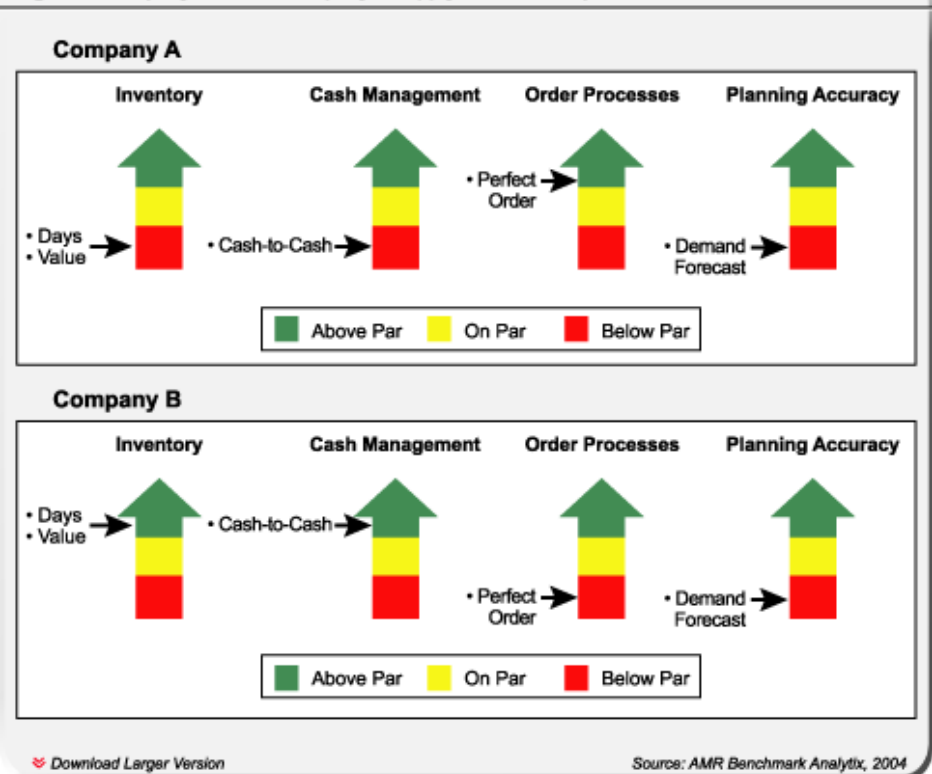


The Benefits of Perfect Orders

16

- carry less inventory
- experience a shorter DSO
- reduced labor costs
- reduced returns/replacement product
- lower total delivered cost to customers
- increased revenue due to increased customer satisfaction

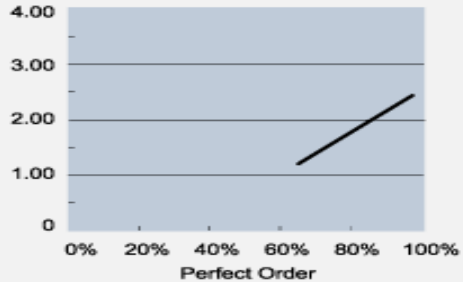
Figure 1: Company A versus Company B supply chain interdependencies



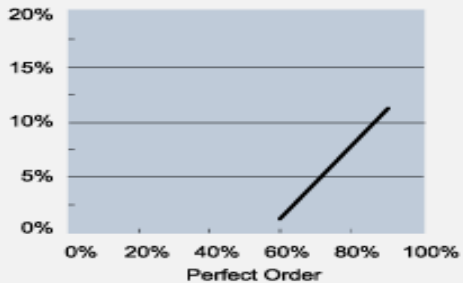
POI & Company Performance

17

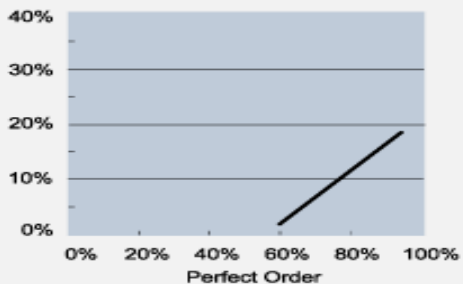
Earnings
Per Share



Profit
Margin



Return on
Assets



- Perfect order index improvements of +10 correlate with
 - + 50 cents EPS
 - + 5% Return on Assets
 - + 3 Profit Margin

- On a million shares, a 50 cent EPS translates to \$500K
- On \$1B in assets, translates to \$50 MM
- For a \$1 B company with 10% profit margin, increase to 13%, adds \$30 M to the bottom line

Map Your Way to an Improved POI

18

- POI Operational Mission
- Focus on increasing your POI in four ways:
 - Measuring Current Performance
 - Identify Issues
 - Continuous Improvement
 - Maintaining Performance



POI Operational Mission

19

Provide service with an increased focus on accuracy and reliability and continuous improvement to improve your POI

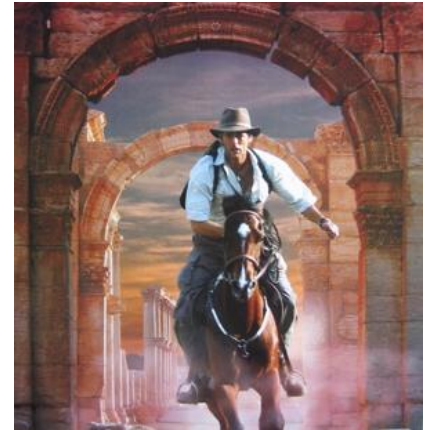


HINT: Demonstrate your commitment to improving POI by including it as a personal goal and objective. Talk about the goal in team meetings, etc.

What Gets Measured, Gets Action!

20

- ❑ Many supply chains can not easily calculate POI
- ❑ So first, define an “internal POI” that you can measure on a monthly basis
- ❑ Sample calculation:
 - ▣ Electronic Orders: 80%
 - ▣ Order Entry/Pick Accuracy: 99.5%
 - ▣ Order Fill Rate: 95%
 - ▣ Delivered on Time: 95%
 - ▣ Shipped without Damage: 99%
 - ▣ Invoiced Correctly: 95%
- ❑ Set the bar by measuring current conditions
 - ▣ Perfect Order Index is 71.1%

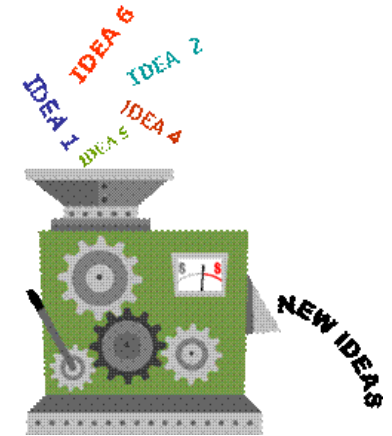


HINT: Make sure you can drill to the detail information behind the metrics so you can recommend improvements to increase your POI.

Identify Issues and Areas to Improve

21

- On a monthly basis, publish your POI
- Set goals and track progress over time
- Work collaboratively to identify issues, isolate root cause relationships, and identify actionable improvements that can be made
- Prioritize improvement initiatives based on cost vs. benefit



HINT: Celebrate the identification of issues and actions to improve the identified problem areas

Sample Ideas to Improve POI

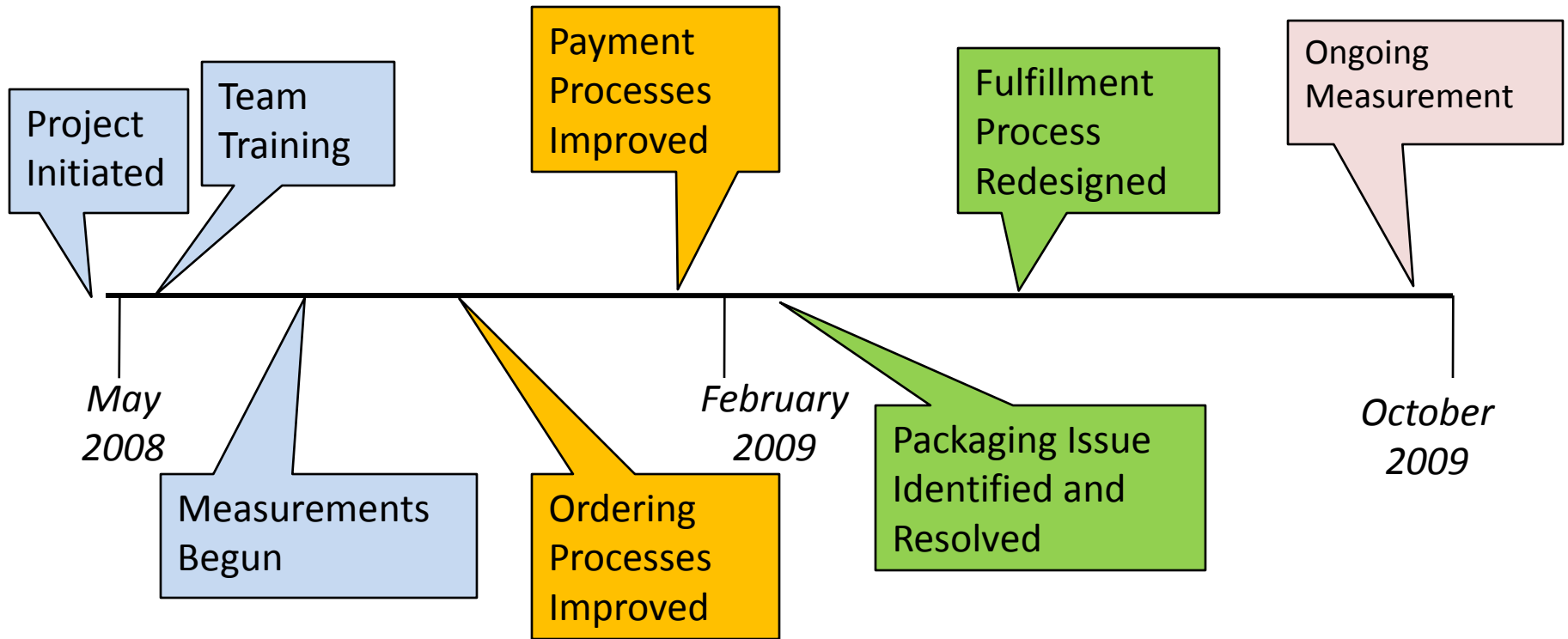
22

- Pricing Discrepancies
 - ▣ Provide updates to contract and product catalog information via EDI
 - ▣ Proactively communicate damages, short shipments vs. deducting on invoices
- Unit of measure issues (Short shipments, Overage)
 - ▣ Provide product specifications to customers ordering LTL that include the unit of measure, pallet positions, layers etc.
 - ▣ Slip sheets for mixed pallets
- Damages
 - ▣ Redesign shipper / overbox
- Drive adoption of electronic transactions
 - ▣ Purchase Order EDI 850
 - ▣ Invoice EDI 810
 - ▣ Payment EDI 820

HINT: Implement the low hanging fruit quickly so improvements can be seen immediately

Continuous Improvement

23

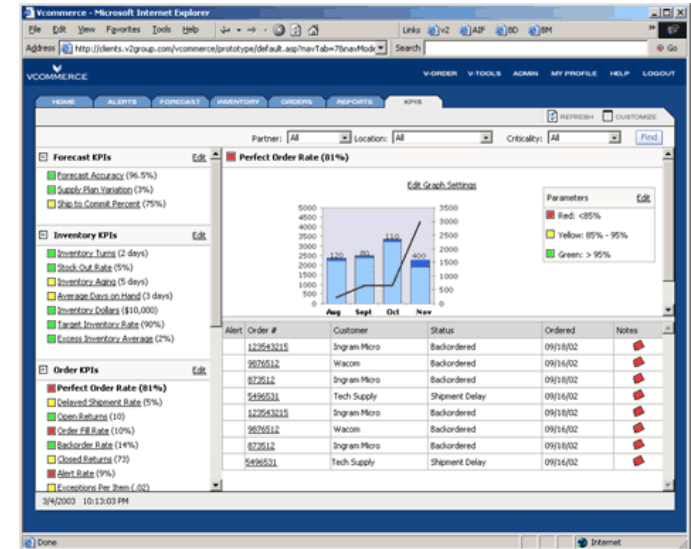


Maintaining Supply Chain Performance

24

- Build the capability to enable real-time alerting to conditions that may result in a less than Perfect Order
 - displaying orders at risk of out of stocks
 - review tracking information to identify orders that will not arrive on time
 - proactively taking action on issues as they occur.

- Alerting through dashboards accelerates the potential to proactively address issues that could negatively impact Perfect Order rates

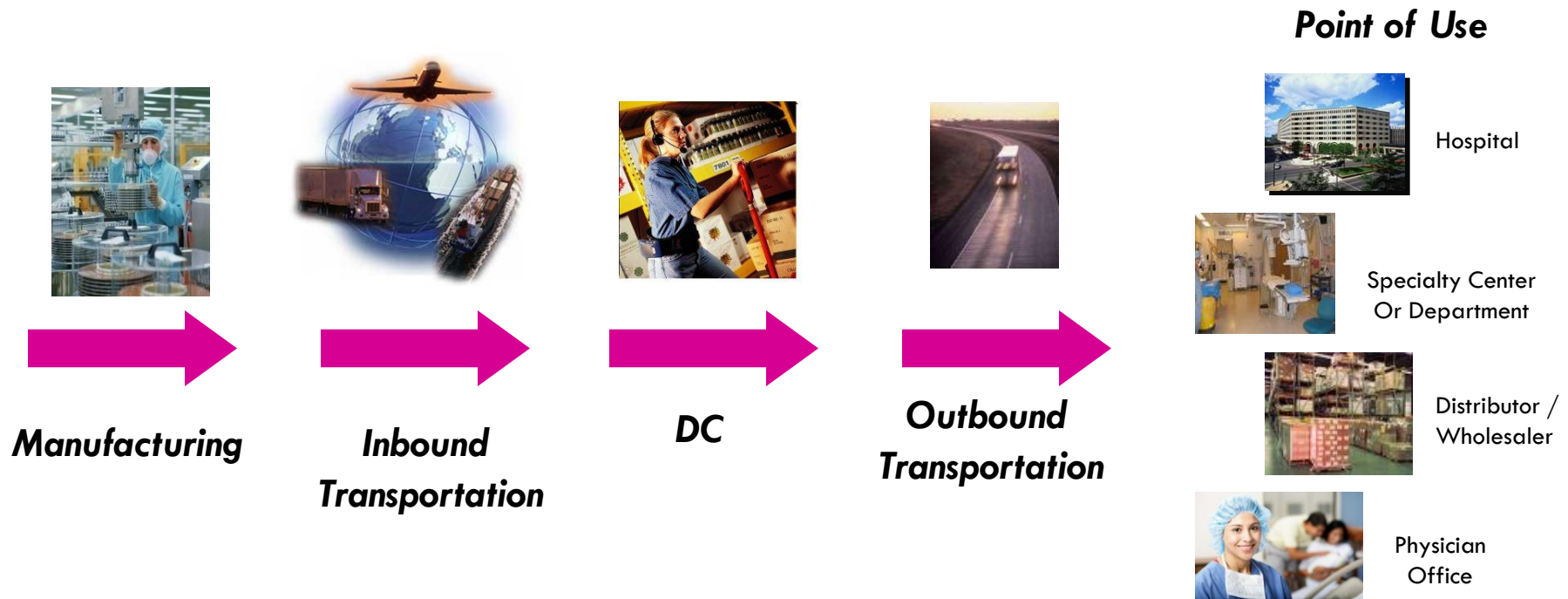


HINT: Proactively identify and resolve issues with orders in process. Customers will be delighted!

Increasing the Odds

25

The odds of achieving a perfect order can be increased through extended visibility across the supply chain



Summary

26



Thank you!

I welcome your comments and questions

Denise Odenkirk

VP, Clinical 3PL

OM HealthCare Logistics

denise.odenkirk@owens-minor.com

609-216-4512 (cell)