

## FREQUENTLY ASKED QUESTIONS ABOUT VENDOR MANAGED INVENTORY (VMI) FLEX

- 1. Q: What happens to Legacy VMI (i.e. 1.0 & 2.0) stock held at Honeywell when a supplier migrates to VMI Flex or other delivery strategies?**

**A:** Any supplier owned Legacy VMI stock remaining at the time of VMI Flex "Go Live" will be managed as follows:

  - Legacy VMI parts moving onto VMI Flex will transferred into the VMI Flex plan.
  - Legacy VMI parts moving onto ONCPO or FPOT - The inventory will transition into Honeywell's inventory and standard payment terms for those parts will start, as per the supplier's LTC.
- 2. Q: Can parts be removed from the VMI Flex program?**

**A:** Out of cycle supplier requests will be investigated by the VMI team and agreement with the supplier on the appropriate strategy will be reached. Suppliers can request a portfolio review to make sure their parts are appropriately aligned with the best delivery strategy program at any time. However, all parts are reviewed on a periodic basis during the quarterly business review (QBR) to ensure that only the right parts are in the VMI Flex program and delivery strategies are realigned when necessary. PFEP change recommendations will be provided to the supplier for discussion as a part of the QBR process.
- 3. Q: Does VMI improve forecast and or demand variability?**

**A:** The forecast view in HASP for VMI Flex suppliers is based upon Honeywell's actual customer orders. When coupled with elimination of "push out" and "pull in" messages, this new view helps to eliminate the "Bull-whip Effect". Further, suppliers can choose the size & frequency of their shipments and see the daily consumption of their parts.
- 4. Q: Can suppliers add parts to VMI, even if they are not "Recommended" as part of the Portfolio Review?**

**A:** Yes, so long as the supplier understands:

  - The minimum quantity must be maintained.
  - Higher forecast variability may require higher safety-stock. (supplier's discretion)
  - Low mins & increased variability risk OTTR hits.
  - Honeywell is not obligated to buy inventory.
- 5. Q: Who is responsible for in-transit insurance?**

**A:** The VMI Flex program requires modified Incoterms to separate the risk of loss from the payor of freight as outlined in the VMI Flex amendment. The supplier may choose to either purchase shipping insurance or self-insure. Suppliers may contact their insurance company and ask for a rider policy, which is often included in their existing umbrella policy. This should cover the cargo insurance without incurring significant, if any, expense. As for the cost, VMI Flex suppliers have found the administrative savings reaped in the program outweigh any nominal fees expended for cargo insurance.
- 6. Q: When the agreed price of the part changes, what price is paid for a part when delivered under VMI Flex?**

**A:** VMI does not impact pricing at any time; part price is determined by the pricing in effect at the time the part is pull to production.
- 7. Q: When does transfer of ownership take place?**

**A:** Ownership transfer occurs at the time the part is pulled to production from the 3PL (3rd party logistics) stores.
- 8. Q: When do net payment terms start?**

**A:** Net payment terms start the day the part is pulled to production from the 3PL .
- 9. Q: Does the 3PL perform FAA required inspections? If so, when?**

**A:** If the supplier self-releases, they ship the parts so there is no change to the current process. If there is no self-release and the FAA must inspect the part (all individually inspected), the inspection is performed before the part leaves the supplier.
- 10. Q: What is the intent of the amendment when it says, "Provides right of return for suppliers and Honeywell."?**

**A:** For Honeywell, it means if there is a quality issue, the part can be shipped back to the supplier. For suppliers, it means they can recall the inventory for any reason. Both scenarios require the supplier to pay freight.



- 11. Q: What if a VMI Flex part doesn't get pulled? VMI Flex does not contain inventory passage of time or transfer obligations.**  
**A:** VMI candidate parts are selected based on cost, demand and fluctuations in demand over time. The criteria is designed to select steady-runners with good volume, eliminating the need for passage of time. To guard against inventory not being consumed quarterly business reviews (QBRs) are held to ensure the right parts are on the VMI Flex program and replenishment models are realigned as necessary. If the supplier requires a more frequent meeting this request is met. There is no obligation for Honeywell to consume or pull any part(s).
- 12. Q: Upon implementation, it looks like all existing PO's for parts transitioning into VMI Flex will be cancelled. Is this true?**  
**A:** Yes, existing PO's will be canceled unless shipment documents are created or ASN numbers are assigned on partial shipments. Suppliers work with the implementation team to trigger new PO's the same day so PO's aren't lost.
- 13. Q: Can the HASP system identify the serial numbers of the parts pulled in the consumption report?**  
**A:** The HASP portal does not currently have the capability to report SN#'s. However, a long-term IT solution is in development. In the meantime, suppliers can allocate shipments against orders based upon our use of a batch management FIFO system.
- 14. Q: How can we resolving pricing issues? Who is responsible for correcting pricing?**  
**A:** Commodity Managers are responsible for ensuring LTC pricing is correct in Honeywell systems. Please work with them to resolve the issue.
- 15. Q: Getting parts added to the LTC in an amendment is difficult. How will the new VMI Flex program affect this?**  
**A:** VMI Flex has no impact; off contract parts are not eligible. Only Commodity Managers are authorized to add or remove parts from an LTC.
- 16. Q: Can Honeywell reset minimum inventory at will?**  
**A:** No. The VMI Operations Excellence team will review the MIN levels with the supplier during the quarterly business reviews (QBR's) and only change them if "mutually agreeable" as per the VMI Flex amendment.
- 17. Q: Can we find out exactly what part numbers will be on VMI Flex ahead of signing?**  
**A:** Yes. Part numbers are not authorized to be placed onto VMI Flex unless the supplier provides authorization in writing. Verbal authorization is not accepted. Further, the VMI Flex amendment must show part numbers, sites and MIN quantities.
- 18. Q: Will there be any impact on how the "A", "B", "C" codes work going forward?**  
**A:** VMI Flex does not differentiate between A, B and C parts. Payment occurs per the contracted net terms, based on the date the part is pulled from 3PL stores, regardless of how the part was previously categorized.
- 19. Q: When do we have to evaluate and agree on the MIN / MAX quantities we are willing to carry?**  
**A:** Honeywell provides a "suggested" MIN with the proposed parts list that is generally equivalent to 5 days of supply. We suggest suppliers consider their manufacturing batch size and consumption rate when evaluating MIN levels. Accepted MIN levels are signed in to the VMI amendment but the MIN level can be adjusted the implementation process. A supplier can request an adjustment to the MIN level at any time. MINs are also reviewed during the quarterly business reviews (QBR). There is no MAX level in VMI Flex.
- 20. Q: What is the time line for implementing VMI Flex once we have signed an amendment?**  
**A:** VMI FLEX amendments require implementations be completed within 30-days of signature. Alternative implementation schedules may be approved based with the mutual agreement of Honeywell and the Supplier. Suppliers may want to "go live" much quicker due to the benefits of the VMI Flex program.
- 21. Q: Will there be a hard-copy manual for reference?**  
**A:** Within the HASP portal several tutorials are available for training and reference. These PowerPoint presentations are always available. In addition, we offer on-line training on an ongoing basis.
- 22. Q: Does Honeywell do on-site training for the new process or do we send someone there? Or, can training be done on-line?**  
**A:** Training is generally done on-line using Skype. If the supplier is in the Phoenix area, we can conduct training on-site.
- 23. Q: Why are parts w/ CoV > 2.5 included in the recommended parts list?**  
**A:** CoV's >2.5 are primarily attributed to MTS Exception parts. Those are parts who's forecast is based upon repairs and forecasted customer demand, not based on Honeywell's production needs. It can also include make-to-stock parts. Note: these are only recommendations. We want suppliers to thoroughly review the recommended parts list and determine which parts make sense to put onto the program based on historical and forecast knowledge.