



VENDOR MANAGED INVENTORY - VMI

Overview, Features & Benefits

AGENDA

Program Overview

- Candidate Parts
- Two Forecasts
- Managing PO's in HASP
- QVR's – Quarterly VMI Reviews
- First Aid
- MIN review
- VMI Program OTTR (on time to requirement) Measurement & Results
- Supplier Feedback
- VSRA
- Program Highlights
- Process Timeline
- More information

WHY VENDOR MANAGED INVENTORY (VMI)?

INDUSTRY BEST PRACTICE

- A proven best practice in *many* industries
- Becoming the industry standard

Additional
Supplier
Opportunities



DRIVES PERFORMANCE

- Responsiveness to our customers
- Enhance competitive position
- Improve win rates

Halo benefits
reaped by entire
supply chain



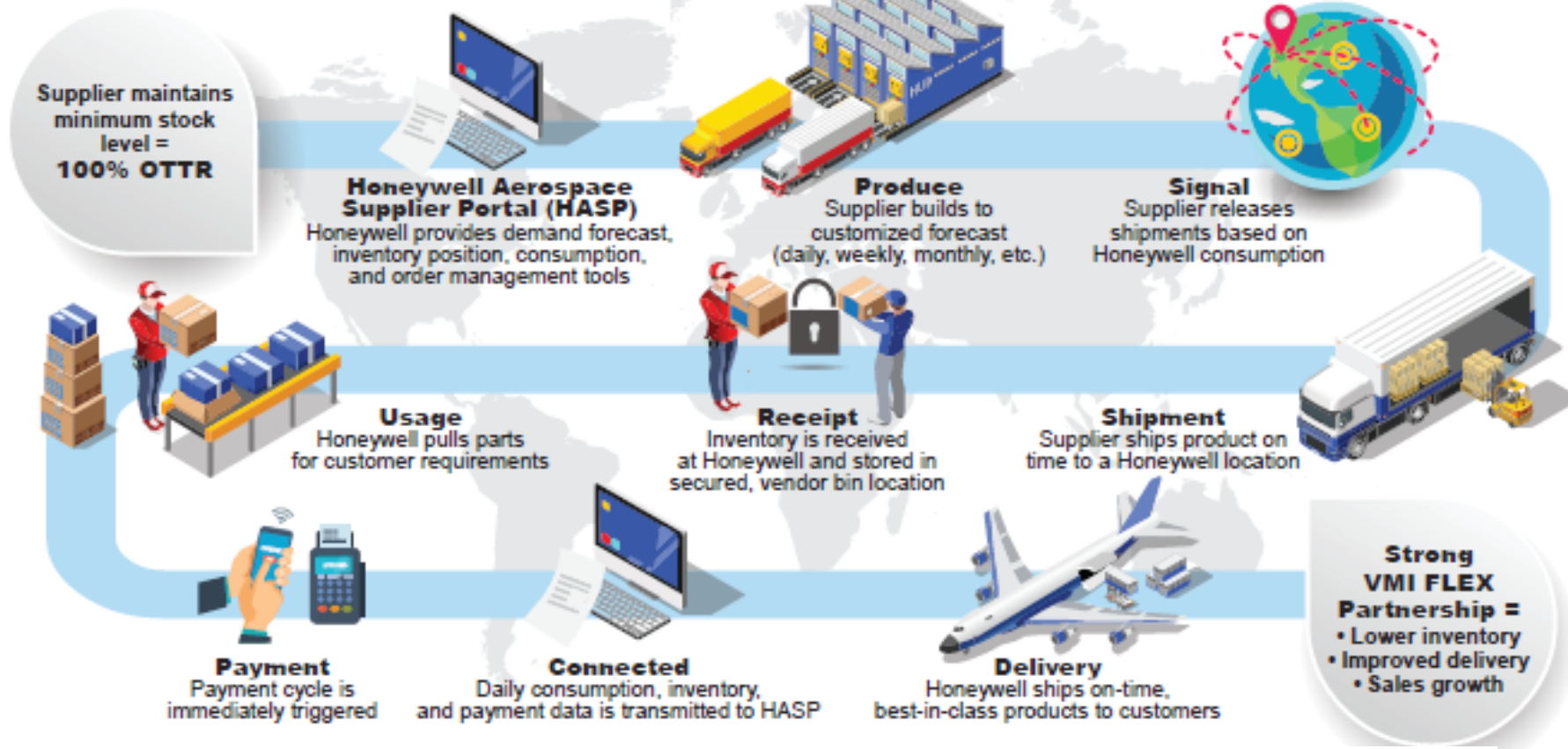
GETS RESULTS

- A responsive supply chain = improved OTD for suppliers and Honeywell
- Improves Performance
- Lowers Cost

More chances to win
new business on both
sides!

VMI is a Competitive Differentiator for Both Supplier and Honeywell

VMI PROCESS OUTLINE



SUPPLIER BENEFITS

Applying lean methodologies to optimize end-to-end supply chain performance

<p>Increase Sales</p>  <p>VMI Partners are preferred when awarding new business</p>	<p>Administrative Savings</p>  <p>No purchase order date changes</p>	<p>Improved On-Time Delivery</p>  <p>Maintain minimum stock level = 100% OTTR</p>	<p>Optimize Inventory Performance</p>  <p>Flexible replenishment parameters</p>	<p>Electronically Connected</p>  <p>Real-time inventory and consumption</p>
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FOCUS ON THE RIGHT PARTS

EASY & FAST

A1-B2
 Predictable, fast
 movers, low costs to
 revenue, risk is only
 costs of capital

- ✓ Move 50 + time per year
- ✓ 12% of SKU's
- ✓ 70%+ COGS
- ✓ 30% of inventory

		1	2	3	4	
High						
A		A1	A2	A3	A4	
B		B1	B2	B3	B4	
Low						
C		C1	C2	C3	C4	
	Low	Demand Volatility				High

B4, C3-C4
 Unpredictable, slow
 movers, high costs to
 revenue, +
 obsolescence

- ❖ Move 1-4 times per year
- ❖ 70% of SKU's
- ❖ 5% of COGS
- ❖ 35% of inventory
- ❖ Carrying Costs \$
- ❖ MOQ excess \$
- ❖ Freight inefficiency \$
- ❖ Obsolescence \$

HARD & SLOW

Focus on Predictable, Fast Moving Parts = Dramatically Lower Risk for Supplier

VMI – HASP FORECASTS

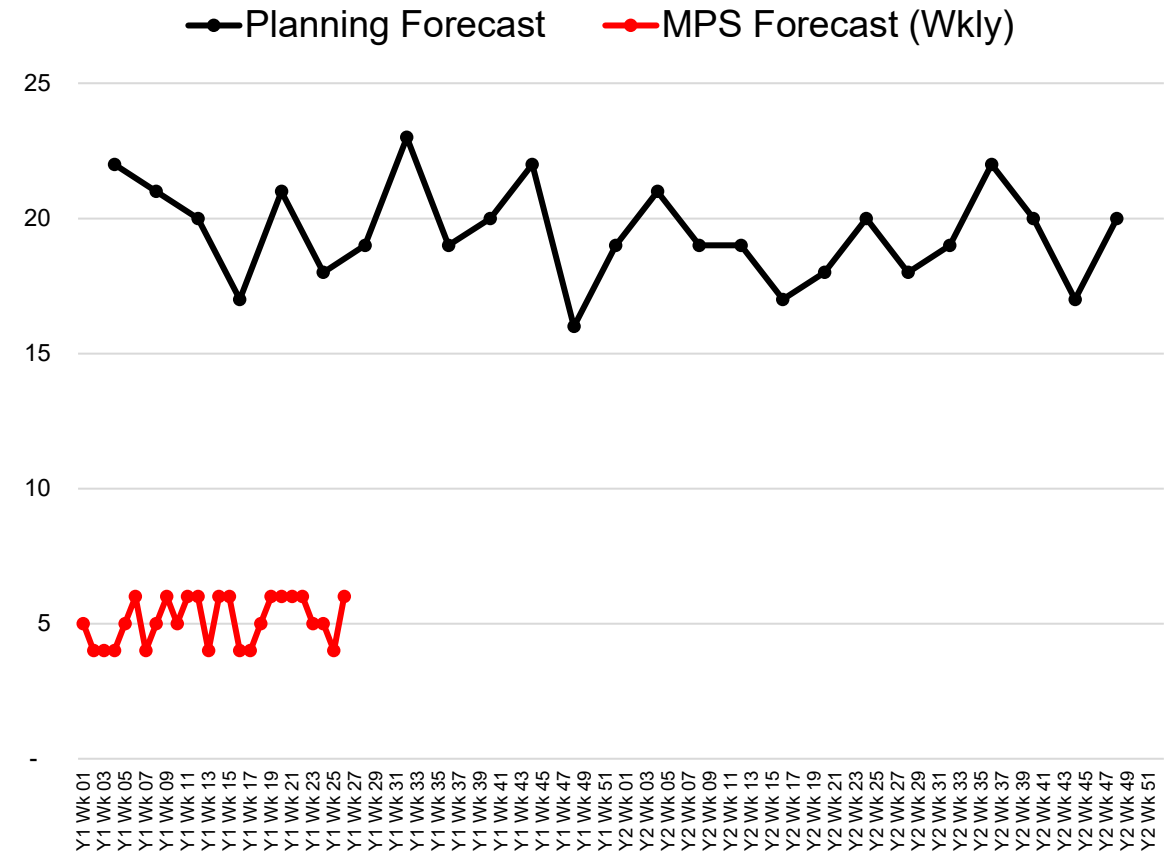
1. Planning Forecast - a 2 to 3 year time horizon

- Longer-term view
- Often buckets demand by month or quarter, instead of week
- Suppliers are to **use this forecast to build**/MRP

2. MPS Forecast - Honeywell's consumption plan

- Bucketed weekly and goes out 6 months
 - Suppliers should **use this forecast to ship to**
 - Can also be used to plan to build shorter LT parts (<26 weeks lead time)
- These two forecasts tie out in aggregate
- 1 qtr of Planning Forecast and 1 qtr of Buildplan will generally align
- *These forecasts will not tie out on a week-to-week comparison*

Planning Forecast vs MPS Forecast in HASP



Suppliers Should Use Both Forecasts to Plan & Ship Inventory

VENDOR RELEASED PURCHASE ORDER

Create a Purchase Order

1. Fill in the PO quantity in the 'Suggested Order Qty' field
2. The line is already highlighted or highlight the line if you move the cursor
3. Click the Submit button
 - a. PO will generate with a Delivery Date due per the Contract Replenishment Lead Time CRLT (i.e. 14 or < days)

VMI PO Results

Search Results

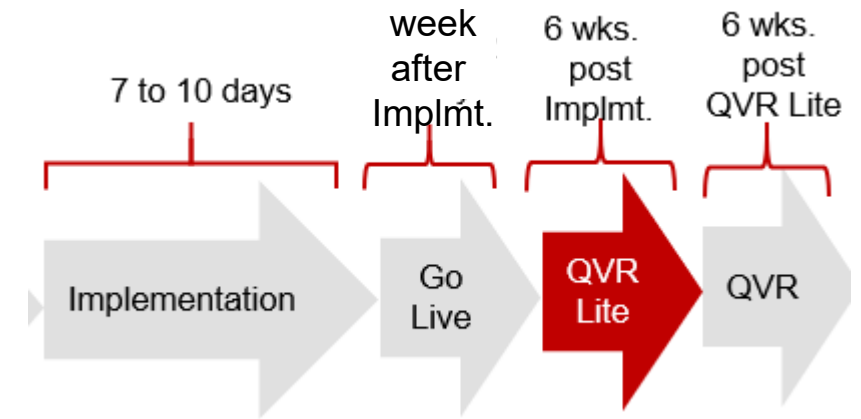
Select All Deselect All **Submit** Back

View: Yvonne Export Delete Row

Plant	Material	Status	Suggested Order Qty	Open PO Qty	Repl LT (C-Days)	Delv Date	HON Stk	HON Stk Q.insp	Vndr Stk	Vndr Stk Qual.insp	Total Stk	Min Stk	Max Stk	Last PO	HW DMD Past Due	W24 (11/JUN/2019)	W25 (17/JUN/2019)
1014		⚠	0.000	474.000	28	07-09-2019	2.000	0.000	24.000	0.000	26.000	22.000	500.000	4208238789	520	35	13
1014		⊗	100.000	138.000	28	07-09-2019	0.000	0.000	0.000	0.000	0.000	6.000	250.000	4208238924	169	6	0
1014		⊗	0.000	64.000	28	07-09-2019	0.000	0.000	0.000	0.000	0.000	13.000	250.000	4208238977	307	13	0

*Open PO Qty was 138

QVR “LITE” (6 WKS POST IMPLEMENTATION)



Questions:

- 1) Verify full implemented part portfolio is visible for supplier in HASP.
- 2) Do you see any part(s) settings that are incorrect? If so, which ones and what is incorrect?
- 3) Have you generated a PO?
- 4) Have you changed a delivery date or quantity on a PO? i.e. created your own change orders
- 5) Do you know how to generate the consumption report?
- 6) Do you know how to generate the settlement report?
- 7) Do you know how to tie them together so that you understand when you will be paid?
- 8) Do you know how to read the forecast and MPS in order to schedule your manufacturing to ensure on time delivery?
- 9) Do you have any questions or need further training?
- 10) Is your Quarterly Vendor Review (QVR) scheduled?
- 11) Do you know how to use Case Management in HASP to resolve issues?
- 12) Is there any additional training or information needed?

Proactive engagement is critical to long term success

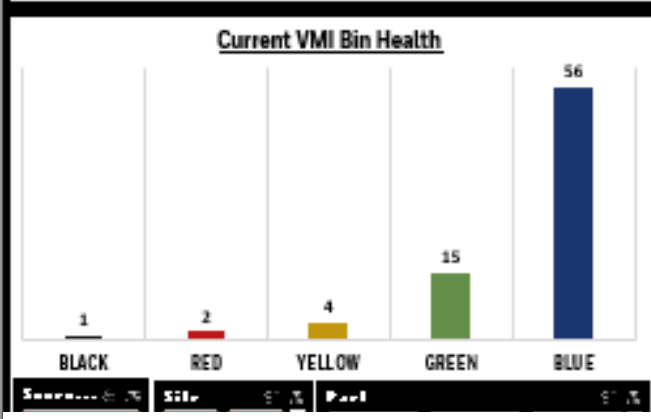
VMI QVR METRICS DASHBOARD

HONEYWELL FLEX VMI PROGRAM

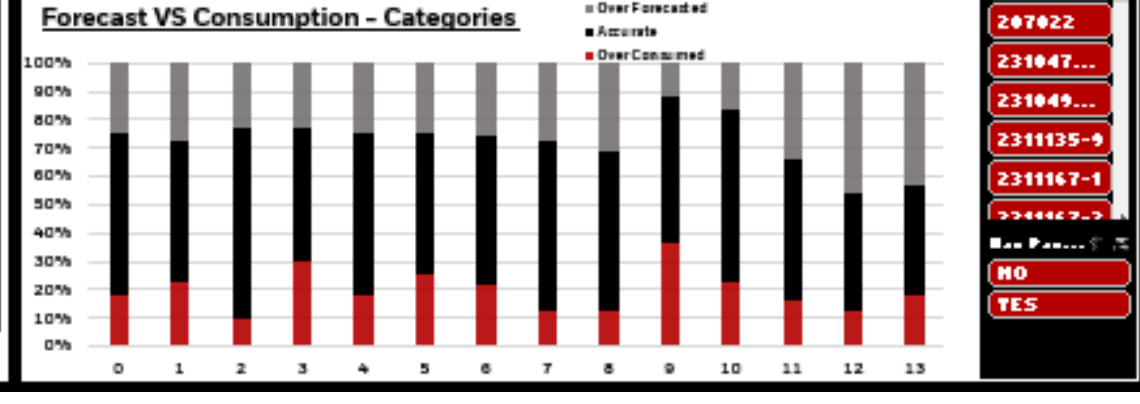
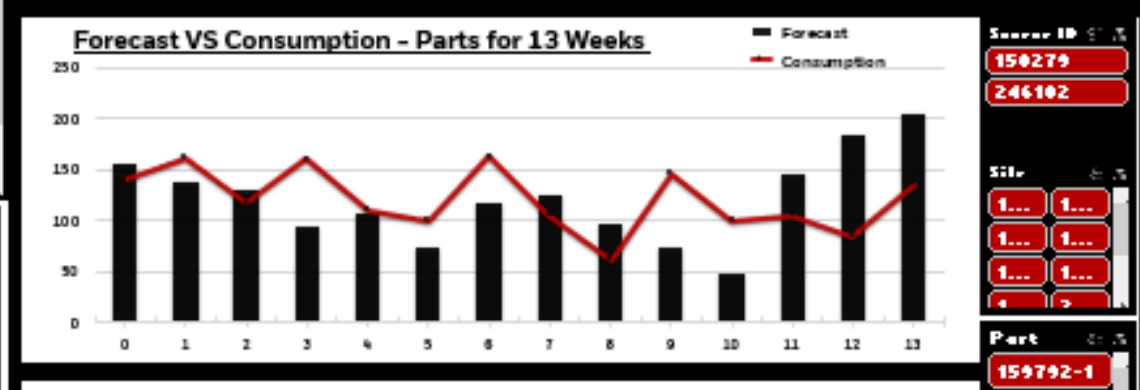
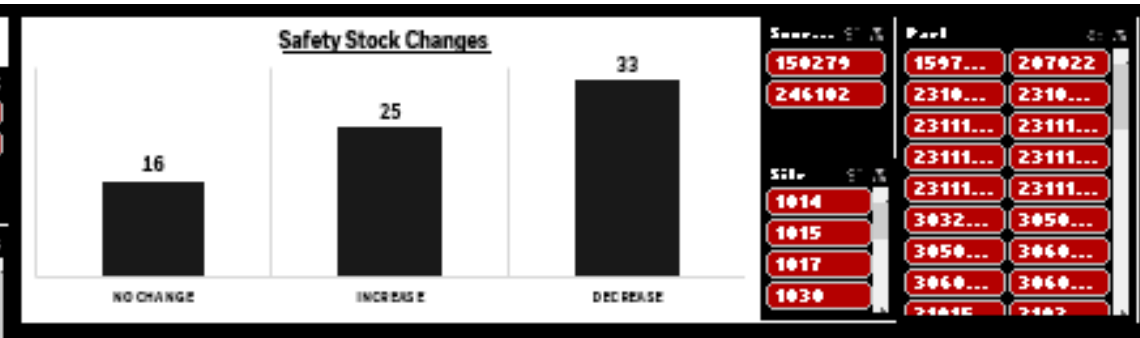
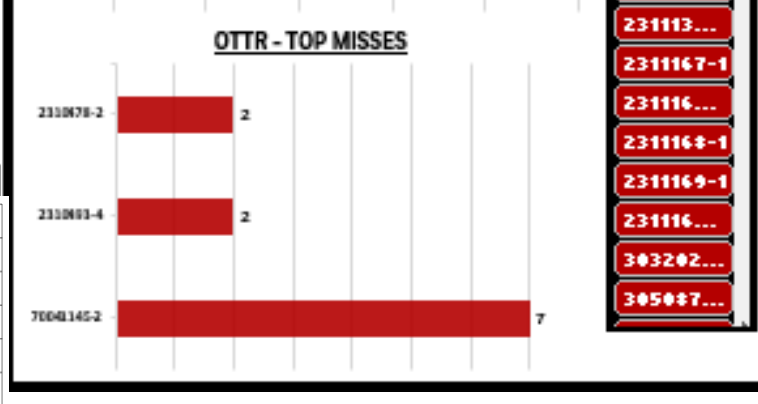
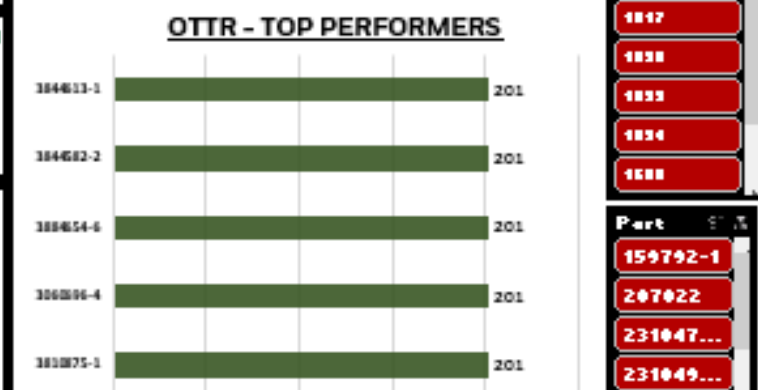
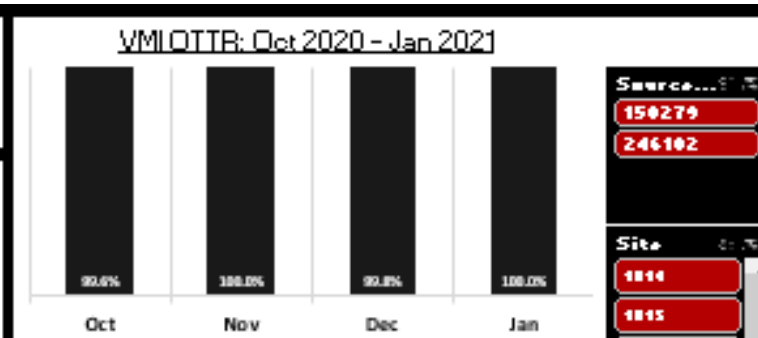
SIGNED PARTS	IMPLEMENTED	SHI-IMPLEMENT	SHI-REMOVE
90	83	0	7

SIGNING PENETRATION	IMPLEMENTATION PENETRATION
92.6%	85.6%
SIGNING OPPORTUNITY	IMPLEMENTATION OPPORTUNITY
9 Parts	0 Parts

HITS	ULTIMATE HYDROFORMING INC OTTR: Oct-Jan 2021
4,986	99.8%
MISSSES	
11	



Bin Health Color	Definition	OTTR
Black	Current Total Stock On Hand = 0, STOCK OUT	MISS
Red	Current Total Stock On Hand > 0, But under MIN target	MISS
Yellow	Current Total Stock On Hand > MIN, But below GREEN Status	HIT
Green	Current Total Stock On Hand > MIN and > 2wks MPS + 20% of PD	HIT
Blue	Current Total Stock On Hand > next 8 wks of MPS + 100% of PD	HIT



FIRST AID

Short term (4 weeks) help for VMI suppliers in chronic bin health distress

Triggers

1. Multiple black bins for 3 consecutive weeks
2. No line of sight to recovery
3. Limited / spotty communication

OR

1. Suppliers with $\leq 90\%$ OTTR for any month in the QVR timeline or a cumulative OTTR for the quarter

Goals:

- * Identify root cause
- * Implement corrective action



When a VMI supplier fails we all fail!

MIN REVIEW

VMI MINIMUM STOCK FOR DIFFERENT DEMAND

OEM

OEM with Embedded R&O

Distribution Center

A Part: 1 WOS

B Part: 2 WOS

C Part: 4 WOS

	1	2	3	4
A	A1	A2	A3	A4
B	B1	B2	B3	B4
C	C1	C2	C3	C4

(ref. slide 5)

OEM
(based upon ABC code)

+

Aftermarket
Optimization

(Demand variation during lead time w/
overall 95% service level.)

Aftermarket
Optimization

Demand variation during lead time w/
overall 95% service level.

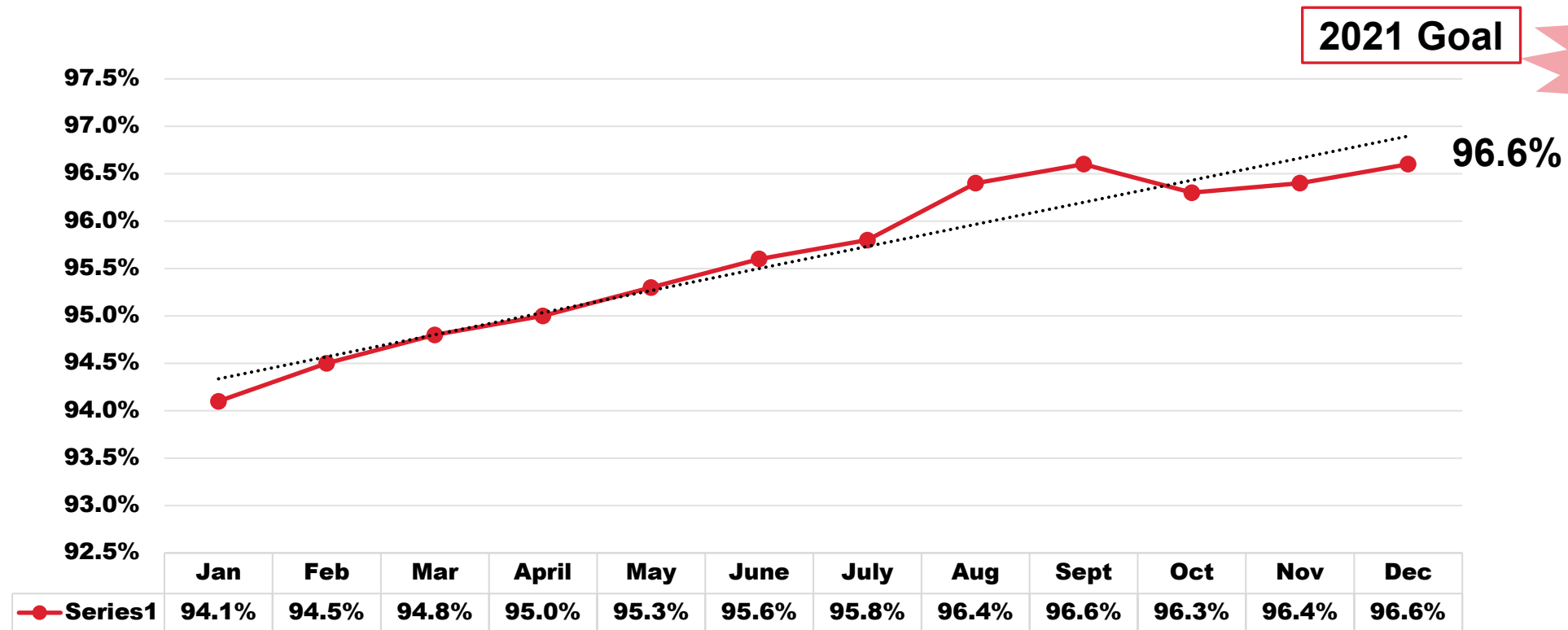
Sites 1009, 1014, 4141, 5251 will experience
auto MIN updates every quarter. This change is
temporary until the cadence for MIN updates is
reduced from quarterly to 2x annually. Suppliers
should create a case if they have concerns over
adjusted Mins.

Appropriate adjustments keep the program current to future demand whether its an increase, decrease or no change.

$$1 \text{ Week of Supply (WOS)} = \text{SUM}(PD + 13 \text{ week Demand})/13$$

VMI MIN inclusive of Aftermarket Demand variability

VMI SUPPLIER OTTR – 2020 PROGRAM RESULTS



Supplier must maintain DAILY inventory levels equal to or greater than the established minimum level.

In the event that a minimum quantity is not maintained, an OTTR impact will result.

Simplified VMI OTTR calculations and execution have:

1. Improved supplier fill rates & enabled factory flow
2. Improved Customer delivery and satisfaction

Parts implemented to VMI see an average OTTR improvement of 16%



SUPPLIER FEEDBACK

Doing Well

- ✓ Greater transparency
- ✓ Robust HASP Training
- ✓ Improved collaboration & availability of resources
- ✓ Timely responses
- ✓ Case Management
- ✓ Ability to place / change PO's
- ✓ Implementation Cycle-time
- ✓ HASP Portal Functionality
 - ✓ Manage MINs & MAXs (completed)

Do Different

- ✓ HASP Portal Functionality
 - ✓ Add / Remove parts (TBD)
- ✓ Alignment Planning & Procurement
- ✓ VSRA – starting Jan 2021

VMI is a continuously improving program

VMI SUPPLIER READINESS ASSESSMENT (VSRA) – PURPOSE, PROCESS & BENEFITS

Purpose:

- Identify suppliers capable of supporting the VMI Flex program
- Improve the implementation process after a part is signed
- Focus efforts on suppliers that can support and sustain the VMI Flex program long-term

Process:

- Honeywell's VMI Team sends the VSRA link to suppliers after their participation in a VMI Overview webinar
- Suppliers complete the VSRA (10 – 12 minutes)
- Completed assessments are scored using a Weighted Factor Average (WFA) and categorized as follows:
 - **Green** – VMI capable
 - **Yellow** – Not VMI capable but, has potential within 6 – 12 months with support from Supplier Development
 - **Red** – Not VMI capable. Supplier cannot support the VMI program within the foreseeable future
- VSRA data is maintained for use by VMI & Strategic Sourcing teams

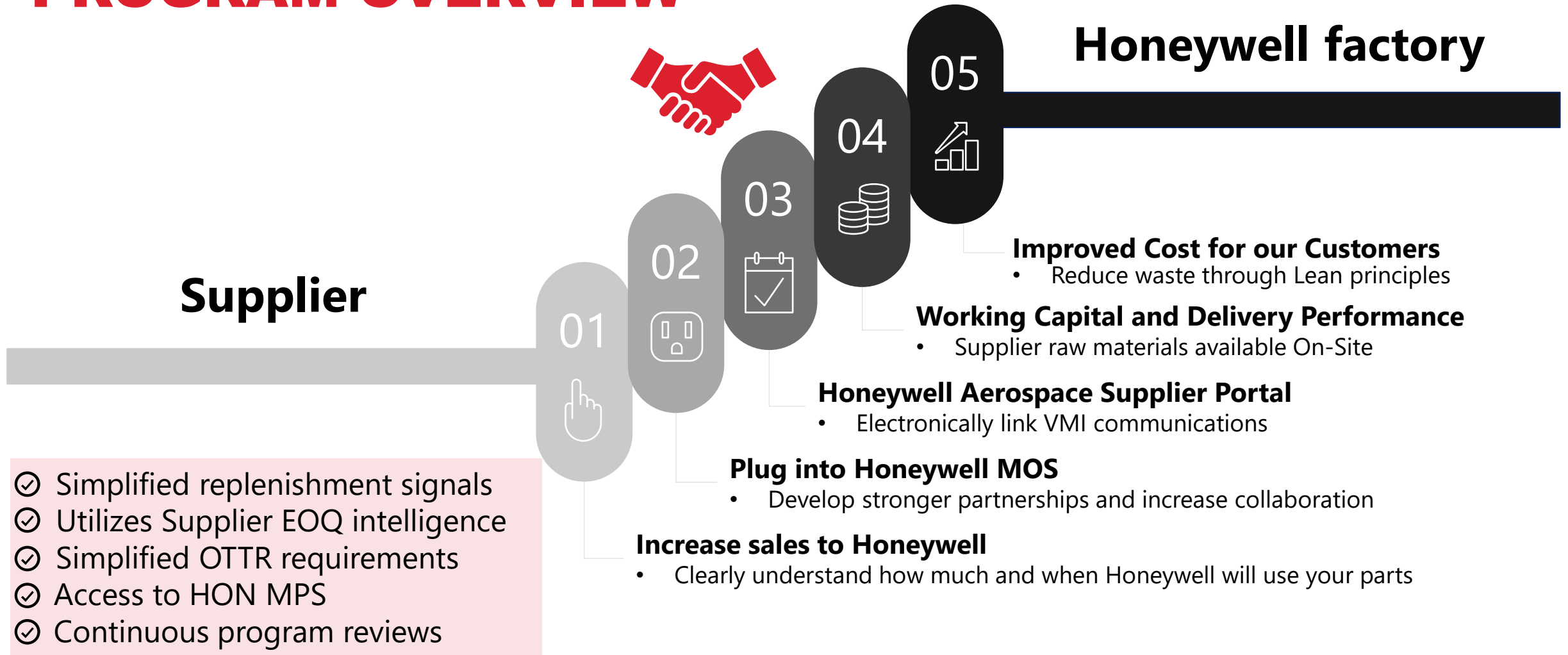
Supplier Benefits:

- Suppliers are not encouraged to participate if they cannot support VMI.
- HON Supplier Development works with suppliers to address & resolve areas needing improvement

Honeywell Benefits:

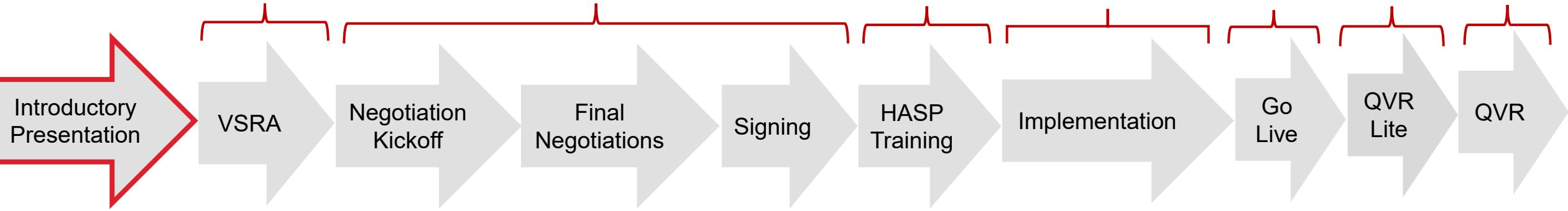
- Suppliers unable to support VMI are not encouraged to participate allowing us to focus on suppliers who can.
- VSRA data allows us to make better strategic decisions.
- Implementation time improves, and part removals are reduced.

PROGRAM OVERVIEW



Designed for YOU and Honeywell

You are here



NEXT STEPS

Complete VSRA – VMI Supplier Readiness Assessment

Negotiations:

Project Manager or Commodity Manager will provide:

- 1) Recommended parts list
- 2) VMI Addendum or amendment
- 3) Request for meeting

Required Supplier Attendee(s):

Potential Supplier Attendees:

VP / Director (someone with signature authority)

Operation Manager

Inventory Controller / Manager

Honeywell Account Manager



VMI FLEX – ADDITIONAL INFORMATION



Please visit Honeywell VMI Flex website

VMI Flex video
Aero VMI Overview
Implementation training
Supplier Testimonials
Aero VMI FAQ sheet
Aero VMI Fact Sheet

<https://aerospace.honeywell.com/en/pages/vendor-managed-inventory-vmi-flex>