

## **Excerpts from Dynamic Duo Article in O'Neal News, Spring 2007**

In November of last year, O'Neal again affirmed its commitment to serving the aerospace industry and other Original Equipment Manufacturers that require specialty metals by acquiring two more leading-edge companies: AIM International, now known as United Performance Metals (UPM), and Supply Dynamics. This article explains the role of Supply Dynamics within the O'Neal Steel family of companies.

Supply Dynamics represents an exciting new opportunity for customers and the O'Neal family of companies. The company is the industry's leading provider of raw material consolidation solutions, called "Material Demand Aggregation." (Think of it as an analytical purchasing and inventory management process and associated IT system on steroids.)

Located in Cincinnati, Supply Dynamics provides Original Equipment Manufacturers with real-time visibility and control over the materials that go into their finished parts, especially those parts made by their domestic and international sub-tier suppliers. Below are some of the details provided to O'Neal News by company President Trevor Stansbury.

**ONN:** Supply Dynamics has built its reputation on a process called "Material Demand Aggregation." What does that mean in layman's terms?

**T.S.:** For almost 20 years, Original Equipment Manufacturers (OEMs) have been outsourcing most of the parts and assemblies that go into the products they sell. In the aerospace industry, 70 to 90 percent of the parts that go into an engine or airframe are manufactured by outside vendors. The rush to take advantage of lower labor rates in South America, Central Europe, and China has exacerbated this trend.

When parts and assemblies were manufactured in-house, OEMs could negotiate competitive prices, and manage their own supply of raw materials. Today, however, that's usually beyond their control. And since any inefficiency in the supply chain impacts OEM prices and service levels, this is a very big deal—considering, for example, that materials account for 30 to 60 percent of the cost of an aerospace part or assembly. To many of Supply Dynamics' customers, this translates into hundreds of millions in uncontrolled costs and lots of delivery headaches. But we offer a consulting service that uses our proprietary processes and IT solutions to help an OEM regain visibility and control over the materials that go into their parts—usually with the understanding that O'Neal companies such as United Performance Metals, Aerodyne Alloys, or TW Metals will have

an opportunity to provide the materials.

The process of launching what we call a “Material Demand Aggregation Program” is a bit more complex. It involves negotiating a consulting contract to set up and administer the program. The first step is to collect and integrate the bills of material (BOM) associated with each part purchased by an OEM from an outside vendor. The next step is to link the BOM data to OEM-generated finished part schedules or historical baselines. This allows Supply Dynamics to forecast aggregate raw material requirements across a supply chain in real time, and to negotiate (on behalf of the OEM and its sub-tier suppliers) long-term agreements with qualified distributors. But this is just the tip of the iceberg.

We then furnish the OEM customer with a “hosted” IT application called OASIS. Accessible via web browser, OASIS brings all this information together in one place, and allows the OEM to access a suite of tools and reports. The customer can, for example, forecast aggregate material requirements by size and specification; instantly understand the raw material implications of a schedule pull-in or push-out; measure on-time delivery of raw materials to its sites and sub-tier suppliers; identify users for surplus, excess, and obsolete materials; and exploit opportunities for material standardization.

**ONN:** So, in a nutshell, the primary customer benefit is...

**T.S.:** The bottom line for any OEM is that if sourcing is not done in a way that provides visibility and control over the materials that go into their parts, it will ultimately render those costs uncontrollable, and will significantly jeopardize the OEM's ability to improve service levels to its customers. Material Demand Aggregation provides a means for OEMs to avoid this pitfall, and dramatically improves the efficiency and predictability of the supply chain. A loosely coordinated group of companies cannot compete with an integrated (choreographed) supply chain operating as a team.

**ONN:** What methodologies do you use for sourcing materials?

**T.S.:** Historically, Supply Dynamics has issued Requests for Proposals (encompassing dozens and sometimes hundreds of an OEM's outside vendor requirements) to qualified suppliers. We would then analyze the responses, and furnish the OEM with recommendations on the “best-value” source of supply.

**ONN:** Do you have a mechanism for illustrating long-term benefits to prospective customers?

**T.S.:** Yes, we generally present a Return on Investment analysis that calculates estimated program benefits. Understand, however, that it's often continuity of supply that's of greatest interest to our customers—they need to know that raw materials are not the reason a part is late to the OEM.

**ONN:** Other than aerospace, what are some industry categories that you consider strong prospects for Material Demand Aggregation?

**T.S.:** Although most of our customers are currently aerospace-related, many industries including the power generation, heavy equipment, medical equipment, and pump & valve segments show strong potential. We have recently added two energy-related customers and another customer that builds locomotives. We have expanded the application of Material Demand Aggregation beyond the exotic metals into carbon steel and into the forms of materials used in heavy duty steel structures.

**ONN:** Where are most of your customers located?

**T.S.:** Our largest OEM customers are all in the United States. OEM sub-tier suppliers participating in one or more of our aggregation programs are located throughout the world, including the U.S., the U.K., and China.

**ONN:** How large does a company have to be to benefit from Supply Dynamics' services?

**T.S.:** The typical target OEM customer is one that has outsourced most of the parts that go into the products it sells. The company may have grown through acquisition, has incompatible systems across various businesses that prevent a "single view" of consolidated material requirements, and has collective raw materials requirements of at least \$5 million a year. The good news is that this describes just about all OEMs.

**ONN:** How and when did the company get started?

**T.S.:** Tom Kennard, President of AIM, and I first met when I was Director of International Programs at Honeywell. Shortly after that, I was asked to lead supply chain integration activities with GE, which gave me an excuse to get to know AIM better, since AIM is located in GE's backyard. Tom left GE to start AIM in 1993, and I teamed up with him and his partner Barry Bucher in 2001 with the intention of incubating and launching an

aerospace OEM consulting business. That business became Supply Dynamics, and was later spun off from AIM with separate offices a quarter of a mile away.

**ONN:** How many employees are there?

**T.S.:** Our 10 full-time employees are located in Loveland, Ohio – just outside of Cincinnati.

**ONN:** What were some of the compatibilities that you felt you shared with O'Neal; and what advantages did you see in joining forces?

**T.S.:** Supply Dynamics has great people, processes, and technology along with an innovative, entrepreneurial bent. When we met Craft O'Neal and read the values on the back of his business card, we knew we had found a financially strong and stable parent company that embraces many of the same principles to which we have always attributed our own success. We were looking for an avenue to take Supply Dynamics to new heights and, one year after the acquisition, we are even more convinced that we made the right choice.