

Essex

Equipment Corporation

To: Sourcing Team
From: Hank Snow
Re: Welcome to Parck

Dear Transition Team:

Jan Johanson, VP of Business Development for Essex, asked me to provide information and guidance related to the sourcing function at Parck. I have attached a number of documents that will help you begin to understand the TTBA sourcing environment. Those documents are as follows:

1. Overview of Essex Sourcing Function – Describes the sourcing function at Essex and available support to the transition team from Essex Corporate Sourcing.
2. Summary of TTBA Suppliers – A description of all suppliers (both strategic and commodity) used in the current Parck TTBA.
3. Information Related to Four Strategic Suppliers – Parck considers the following suppliers to be “strategic” (i.e. non-commodity). These vendors deserve special care. All discussions and negotiations will be handled directly by the transition team. For each strategic supplier we have provided the following: Initial Vendor Evaluation, Current Vendor Scorecard, Current Price List.
 - a. Strong Materials – optical coatings
 - b. Avery-Schwartz – medical light sources
 - c. Electro-Calc – Electronic Processing Unit (EPU)
 - d. Ballston Printers – printer/controller

In your initial research, I suggest you be prepared to brief your team on the following questions:

1. What are the most expensive components in the TTBA?
2. What options does Parck have for reducing material costs?
3. What support does Sourcing need from other functions to achieve significant material cost reductions?

I hope this information is helpful.

Sincerely,

Hank Snow

Essex Corporation

Overview of the Corporate Sourcing function at Essex Corporation

(For internal distribution only)

Key facts about Sourcing at Essex Corporation:

- * Essex's **Corporate Sourcing** group supports the procurement needs of Essex Corporate Offices as well as Essex businesses and subsidiaries.
- * Corporate Sourcing engages in a limited number of direct negotiations with certain corporate vendors, (mostly for MRO).
- * Each Essex business is directly responsible for sourcing product components, raw materials and plant and equipment.
- * Each Essex business is directly responsible for placing vendor orders, managing inventory and managing key vendor relationships.
- * Corporate Sourcing supports each Essex business by conducting initial vendor evaluations and by providing various tools to facilitate order processing.
- * In-depth vendor evaluations and vendor analyses may be performed by each Essex business at their own discretion.

For more information on Essex Corporate Sourcing, please contact:

Hank Snow
VP Corporate Sourcing
Essex Corporation
Essex HQ

To: Transition Team
From: H. Snow, VP - Sourcing
Re: Current Vendor List

Below is a summary of TTBA product vendors by sku. I've also run this data to highlight the most recent costs / unit.

Component	Vendor Name	Vendor #	SKU	Cost / Unit
EPU	ElectroCalc	PMHUJ	EC-24-1	\$125.00
Printer	Ballston Electric	YVFKP	BE3170	\$300.00
Light Source	Avery-Schwartz	DFRWS	AS46-1	\$200.00
Optical Coating	Strong Materials	ANFGY	SM-O2X2	\$250.00
Drive Motors	<i>* Distributor</i>		GE-50	\$36.00
Coolant Pump			C1005	\$48.00
Coolant Tank			C156A	\$35.00
Power Supply			BC600	\$31.00
Chemical Reagents			D-220	\$5.01
¼" Tubing			Alloy 1602	\$15.00
Base Plate / Dish			SD34532	\$78.00
Hardware			H-101	\$18.00
Commodities			---	\$15.00

* Parck has a VMI agreement with a components distributor to maintain raw inventory levels of roughly 30 days' worth of components, or roughly 2,000 items per sku. Payment to this vendor is made in 30 days through direct EDI funds transfer.

Sincerely,

Hank Snow
VP, Corporate Sourcing

Initial Vendor Evaluation Summary

Vendor: *Strong Materials*

Essex Buy: **Optical Coatings for Parck TTBA Product**

Criteria	Sourcing Comments
Competency	Specialty Chemical Development. Holds several patents.
Capacity	New Plant Opening Q2. Optical coating plant currently at 95% capacity.
Commitment	Unclear continued commitment to optical coating product category
Ownership	\$3B Publicly traded company. Widely held stock.
Cash	5% Net Income on \$4B Revenues
Cost	Generally higher prices on commoditized offerings.
Consistency	ISO / CE certified. Some problems with contamination 3 years ago.
Culture	Large company. Many controls. Bureaucratic. Slow to change / respond.
Clean	Big disaster 5 years ago resulting in significant EPA fines. Now meets regulations.
Communication	Slow to respond and somewhat difficult to build common understanding.
Safety	No reported employee safety incidents in last 4 years.
Warranty	N/A
Concentration	Optical Coatings ~1% of sales.
Claims	No Customer Claims in Optical Coatings
Other Comments and Notes from Essex Sourcing	<p>This vendor passes minimal Essex requirements for cost, fulfillment, quality, responsiveness.</p> <p>Concerns:</p> <ul style="list-style-type: none"> • Ability to be price competitive as materials come off patent / become commoditized. Optical coatings off patent 18 months ago. • Lack of responsiveness to needs for new materials / solutions. • Negotiating leverage (our total buy is small relative to their larger customers) <p>Opportunities:</p> <ul style="list-style-type: none"> • N/A

Vendor Performance Scorecard

Strong Materials

Vendor:

Strong Materials

	<u>Points</u>	<u>Weight</u>	<u>Total</u>
Delivery			
On time arrival or service	80	0.180	14.40
Conformance to packaging specifications	100	0.100	10.00
Correct carrier used	98	0.020	1.96
Sub-Total	<u>278</u>	<u>0.300</u>	<u>26.36</u>
Quality			
Conformance to specifications	100	0.150	15.00
Commitment to improve quality	95	0.120	11.40
Quality of information (documentation)	100	0.030	3.00
Claims and credit returns	100	0.020	2.00
Environmental	80	0.080	6.40
Sub-Total	<u>475</u>	<u>0.400</u>	<u>37.80</u>
Cost			
Cost competitiveness	85	0.080	6.80
Commitment to cost reduction	75	0.040	3.00
Share of your business	100	0.020	2.00
General Commercial Consideration	100	0.010	1.00
Sub-Total	<u>360</u>	<u>0.150</u>	<u>12.80</u>
Service			
Response to emergencies	85	0.080	6.80
Response to Owner's problem	85	0.040	3.40
Invoice accuracy	100	0.030	3.00
Sub-Total	<u>270</u>	<u>0.150</u>	<u>13.20</u>
Total Vendor Performance	<u>1383</u>	<u>1.000</u>	<u>90.16</u>

Strong Materials Price List

Optical Coatings: Strong Materials				
Coating	Optical Factor	Hardness	Maleability	Price
SM-O2X2	900	80	2	\$250
SM-O2X3	1495	100	5	\$300
SM-O2X4	1500	120	4	\$400

Shipping Fees

Optical Coatings: Strong Materials	
Shipping Method	Shipping Fee
Emergency Rush Delivery (4-6hrs)	30%
Overnight Delivery (1-2 Days)	20%
Standard Shipping (30 days)	10%
Standard Shipping (60 Days)	0%

Volume Discounts

Optical Coatings: Strong Materials	
Order Volume	Volume Discount
0 to 999 units	0%
999 to 4999 units	-5%
>5000 units	-7.5%

Initial Vendor Evaluation Summary

Vendor: *Avery-Schwartz*

Essex Buy: **Lamp / Light Source**

Criteria	Sourcing Comments
Competency	Strong product technology - Outsources majority of manufacturing
Capacity	At 95% capacity
Commitment	Innovation key culture (product and ops)
Ownership	Privately held by founder who is majority owner
Cash	Reported revenues of \$50MM with \$10MM operating income
Cost	Higher-priced offerings
Consistency	ISO9001 facility (as are all suppliers)
Culture	Strong company-family. Generous benefits.
Clean	Compliant with all state and federal environmental standards
Communication	Rapid response with regards to all communications
Safety	No reported incidents
Warranty	Fully insured / general liability to \$10MM
Concentration	Light Source ~45% of sales
Claims	No customer claims
Other Comments and Notes from Essex Sourcing	<p>This vendor passes minimal Essex requirements for cost, fulfillment, quality, responsiveness.</p> <p>Concerns:</p> <ul style="list-style-type: none"> • Succession planning poses longer-term risk / uncertainty. • Not able to directly manufacture to accommodate peak demands. • Overly dependent on single vendor for key component <p>Opportunities:</p> <ul style="list-style-type: none"> • Leverage total Essex buy of 25% of vendor revenues • Consider acquisition of vendor if reasonable terms can be reached

Vendor Performance Scorecard

Avery-Schwartz

Vendor:

Avery-Schwartz

	<u>Points</u>	<u>Weight</u>	<u>Total</u>
Delivery			
On time arrival or service	95	0.180	17.10
Conformance to packaging specifications	100	0.100	10.00
Correct carrier used	98	0.020	1.96
Sub-Total	<u>293</u>	<u>0.300</u>	<u>29.06</u>
Quality			
Conformance to specifications	100	0.150	15.00
Commitment to improve quality	100	0.120	12.00
Quality of information (documentation)	100	0.030	3.00
Claims and credit returns	100	0.020	2.00
Environmental	100	0.080	8.00
Sub-Total	<u>500</u>	<u>0.400</u>	<u>40.00</u>
Cost			
Cost competitiveness	50	0.080	4.00
Commitment to cost reduction	50	0.040	2.00
Share of your business	100	0.020	2.00
General Commercial Consideration	75	0.010	0.75
Sub-Total	<u>275</u>	<u>0.150</u>	<u>8.75</u>
Service			
Response to emergencies	100	0.080	8.00
Response to Owner's problem	100	0.040	4.00
Invoice accuracy	100	0.030	3.00
Sub-Total	<u>300</u>	<u>0.150</u>	<u>15.00</u>
Total Vendor Performance	<u>1368</u>	<u>1.000</u>	<u>92.81</u>

**Avery-Schwartz
Price List**

Light Sources: Avery-Schwartz				
Model	Output	Reliability	Watts	Price
AS46-1	5600	0.8	100	\$200
AS46-2	6000	0.8	200	\$300
AS46-3	6400	0.8	300	\$400
AS47-1	5600	0.5	50	\$250
AS47-2	6000	0.5	150	\$350
AS47-3	6400	0.5	250	\$450

Shipping Fees

Light Sources: Avery Schwartz	
Shipping Method	Shipping Fee
Emergency Rush Delivery (4-6hrs)	20%
Overnight Delivery (1-2 Days)	10%
Standard Shipping (30 days)	0%
Standard Shipping (60 Days)	0%

Volume Discounts

Light Sources: Avery Schwartz	
Order Volume	Volume Discount
0 to 999 units	0%
999 to 4999 units	-5%
>5000 units	-15%

Initial Vendor Evaluation Summary

Vendor: *ElectroCalc*

Essex Buy: ASIC

Criteria	Sourcing Comments
Competency	Product Development / IP
Capacity	Small prototype shop, then outsource MFG
Commitment	Innovation / NPD
Ownership	Owned by private equity firm (purchased 3 years ago)
Cash	Private- well funded. Estimate \$300MM revenues
Cost	High Price
Consistency	ISO / CE certifications
Culture	Innovation / NPD
Clean	Very environmentally friendly
Communication	Somewhat slow to respond to communication requests
Safety	No incidents in last 36 months
Warranty	Money for proven defect
Concentration	ASICS, Software
Claims	No customer claims on record
Other Comments and Notes from Essex Sourcing	<p>This vendor passes minimal Essex requirements for cost, fulfillment, quality, responsiveness.</p> <p>Concerns:</p> <ul style="list-style-type: none"> • Private Equity impact on cash available for NPD. • Not able to directly manufacture to accommodate peak demands. <p>Opportunities:</p> <ul style="list-style-type: none"> • N/A

Vendor Performance Scorecard

ElectroCalc

Vendor:

ElectroCalc

	Points	Weight	Total
Delivery			
On time arrival or service	100	0.180	18.00
Conformance to packaging specifications	100	0.100	10.00
Correct carrier used	98	0.020	1.96
Sub-Total	298	0.300	29.96
Quality			
Conformance to specifications	100	0.150	15.00
Commitment to improve quality	95	0.120	11.40
Quality of information (documentation)	100	0.030	3.00
Claims and credit returns	100	0.020	2.00
Environmental	100	0.080	8.00
Sub-Total	495	0.400	39.40
Cost			
Cost competitiveness	90	0.080	7.20
Commitment to cost reduction	80	0.040	3.20
Share of your business	100	0.020	2.00
General Commercial Consideration	75	0.010	0.75
Sub-Total	345	0.150	13.15
Service			
Response to emergencies	90	0.080	7.20
Response to Owner's problem	100	0.040	4.00
Invoice accuracy	100	0.030	3.00
Sub-Total	290	0.150	14.20
Total Vendor Performance	1428	1.000	96.71

**ElectroCalc
Price List**

EPU: Electro-Calc			
Model#	Reliability	Base Cost	Memory
EC-24-1	0.5	\$125	50
EC-24-2	0.1	\$175	100
EC-48-1	0.3	\$150	50
EC-48-2	0.1	\$225	100
EC-72-1	0.2	\$200	50
EC-72-2	0.1	\$250	100

Shipping Fees

EPU: Electro-Calc	
Shipping Method	Shipping Fee
Emergency Rush Delivery (4-6hrs)	30%
Overnight Delivery (1-2 Days)	25%
Standard Shipping (30 days)	10%
Standard Shipping (60 Days)	0%

Volume Discounts

EPU: Electro-Calc	
Order Volume	Volume Discount
0 to 999 units	0%
999 to 4999 units	-5%
>5000 units	-10%

Initial Vendor Evaluation Summary

Vendor: *Ballston Printers*

Essex Buy: **Readable Output (printer); I/O User Interface**

Criteria	Sourcing Comments
Competency	Heavy use / ruggedized output devices
Capacity	Global manufacturing capacity in all major markets
Commitment	Sophisticated output technologies / imprinting, digitization of content
Ownership	Privately owned
Cash	Estimate \$1.3B revenues; rough estimate of 8% OM
Cost	Wide range of offerings at varying prices
Consistency	ISO / CE certifications
Culture	Decentralized management with significant autonomy
Clean	Very environmentally friendly
Communication	Good communication
Safety	No incidents in last 36 months
Warranty	Money back only for defective product
Concentration	Output devices and data management services
Claims	No customer claims on record
Other Comments and Notes from Essex Sourcing	<p>This vendor passes minimal Essex requirements for cost, fulfillment, quality, responsiveness.</p> <p>Concerns:</p> <ul style="list-style-type: none"> • Understanding of our customer needs / market. • High level of product sophistication beyond core needs. <p>Opportunities:</p> <ul style="list-style-type: none"> • Realign offerings / buy arrangements

Vendor Performance Scorecard

Ballston Electronics

Vendor:

Ballston Printers

	<u>Points</u>	<u>Weight</u>	<u>Total</u>
Delivery			
On time arrival or service	80	0.180	14.40
Conformance to packaging specifications	100	0.100	10.00
Correct carrier used	98	0.020	1.96
Sub-Total	<u>278</u>	<u>0.300</u>	<u>26.36</u>
Quality			
Conformance to specifications	100	0.150	15.00
Commitment to improve quality	95	0.120	11.40
Quality of information (documentation)	100	0.030	3.00
Claims and credit returns	100	0.020	2.00
Environmental	80	0.080	6.40
Sub-Total	<u>475</u>	<u>0.400</u>	<u>37.80</u>
Cost			
Cost competitiveness	85	0.080	6.80
Commitment to cost reduction	75	0.040	3.00
Share of your business	100	0.020	2.00
General Commercial Consideration	100	0.010	1.00
Sub-Total	<u>360</u>	<u>0.150</u>	<u>12.80</u>
Service			
Response to emergencies	85	0.080	6.80
Response to Owner's problem	85	0.040	3.40
Invoice accuracy	100	0.030	3.00
Sub-Total	<u>270</u>	<u>0.150</u>	<u>13.20</u>
Total Vendor Performance	<u>1383</u>	<u>1.000</u>	<u>90.16</u>

**Ballston Electronics
Price List**

Printers: Ballston-Electric			
Model#	Watts	Reliability	Price
BE2000	50	1.8	\$200
BE3170	50	1.3	\$300
BE4000	50	0.8	\$400
BE6000	50	0.4	\$450

Shipping Fees

Controller: Ballston-Electric	
Shipping Method	Shipping Fee
Emergency Rush Delivery (4-6hrs)	30%
Overnight Delivery (1-2 Days)	15%
Standard Shipping (30 days)	0%
Standard Shipping (60 Days)	0%

Volume Discounts

Controller: Ballston-Electric	
Order Volume	Volume Discount
0 to 999 units	0%
999 to 4999 units	-5%
>5000 units	-10%

To: Essex Sourcing / Business Buyers

From: Hank Snow, VP - Sourcing

Re: New MRP System

All orders placed with strategic vendors must be placed using our MRP system. The MRP system automatically generates and sends purchase orders to vendors at the end of each month.

The MRP system has two separate user interfaces, the User_Form worksheet and the Monthly_Purchasing_Schedule worksheet. Use the User_Form tab to enter new orders and to submit them onto the Monthly_Purchasing_Schedule. Use the Monthly_Purchasing_Schedule to track orders and to cancel orders. The following are instructions for using the new system:

To add order to the MRP system:

1. Open the MRP file (an Excel file), select the User_Form worksheet.
2. Only certain cells can be changed (cells in yellow and the note pad)
3. Enter the vendor number into the yellow cell on the top left (this will populate the form with appropriate vendor data. Sku selection will be limited to items available from that vendor)
4. Select appropriate shipping terms for your order (note: not all vendors off the same options for shipment)
5. Select the sku(s) you wish to order from the drop down list
6. Enter the quantity you wish to order
7. Apply any discounts using the discount cell
8. Check your user form for accuracy
9. Click [Add to MRP System]

To remove orders from the MRP system:

1. Open the MRP file (an Excel file), select the Monthly_Purchasing_Schedule worksheet
2. Click the [Cancel Order] button to open the cancel orders user form
3. Using the form, select the vendors whose orders you wish to cancel (note: you may select multiple vendors.)
4. Press [Cancel Orders] on the bottom-left of the user form.

Remember, the MRP system will automatically generate and submit a purchase order at the end of each month. If you no longer wish to order a certain product, you must delete that product from the Monthly_Purchasing_Schedule

Kind regards,

Hank Snow
VP of Sourcing, Essex