

2009-12-10

Benefit calculation instructions for "Benefit calculation model for papiNet WoodX cases"

1 Overview of the Model

Before commencing a successful papiNet Woodx project, it is important to define your approach, benefits, costs, and projected savings. We have created a very simple model that helps you quantify this choice. The model is developed in Excel. It includes minimal data entry and clearly helps you demonstrate your financial benefit. It is intended to support a brainstorming process for those workflow changes that will accompany papiNet Woodx message implementation. Hopefully it will help you to arrive to a good conclusion.

All data in the model is by way of example only. It is a simple pay off calculation only, i.e. no calculation of present values is done.

You will find 8 different worksheets in the model. What follows is an introduction to each of them so that you can easily understand their scope.

2 Quotation to Invoice

This worksheet is the starting point for those trading partners who intend to go through an initial and gradual cost reduction (process improvements). These trading partners will enable the exchange of electronic business transactions for the various messages that define the quotation to invoicing process. Not all messages need be implemented in one go and can be phased in over a period of time. For example you could start with the order to invoice processes using the five core messages (purchase order, confirmation, call off, delivery and invoice) and then move to either the planning or transportation processes.

3 Consignment Stock

This is intended for those trading partners who want to commence Supply Chain operations by changing their processes with support of papiNet WoodX electronic transactions. There are many areas in the Supply Chain where it is possible to reduce costs and get benefits. Our model illustrates one form of a Vendor Managed Inventory (VMI) process.

4 Parameters

In this part of the model, we consider two major cost categories that contribute to the calculation. The internal interest rate measured in terms of Weighted Average Cost of Capital (WACC) that is the expected return on a portfolio of all a firm's securities. Used as a hurdle rate for capital investment (Used in the VMI benefits only).

The cost for the different positions involved in the process (Planning through to Accounting).

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5 Implementation Costs

This will help you to categorize your implementation costs and distribute them over time. This is a particularly important part to target and define for the overall profitability. For both the model scenarios there is an implementation rate diagram to be filled in.

6 Quotation to Invoice Process

It is important to document your intended business flow. This is very helpful in order to get a clear vision on the changes that will affect your company and the people involved.

7 Consignment (VMI) Process

As above.

8 Profitability

You are at the end of your evaluation and the model will show you the final results according to the data and choices you have made. You can see in our example a comparison between the two processes, but there could be many alternatives or just a single one.

9 Profitability Graph

This shows the results of your evaluation in graphical form.

We hope this brief preliminary text will help you to use this model well and support you in your final choice.

10 Detail Review of the Example

10.1 Quotation to Invoice

If you decide to go for papiNet e-transactions without fundamentally changing your process, there are two different types of question you may ask yourself.

1. Start by projecting savings in the main areas of your process if business is automated. The SIX areas taken into consideration in our example are:

Planning / Forecasting.

Purchasing.

Logistics (Call Off).

Transportation (Logistics Partners).

Receipt of the goods.

Invoice administration.

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2. Ask yourself what would be the implementation rate of the new procedures, by area, assuming a development in 5 years time.

Conclusion

The model's calculation takes the time you assume to save by function multiplied by the cost of the personnel involved in each function which is input on the Parameter worksheet. This calculation will give you an idea of the benefits you may get out of your investment.

10.2 Consignment Stock

If you decide to change more fundamentally your existing business process and to support it via papiNet WoodX e-transactions, then you will need to answer additional questions according to the process you have in mind to modify. In our example, we describe a VMI scenario of automatic replenishment. The calculation incorporates a key element, working capital.

Calculate the current inventory value of wood that can be bought under a revised VMI-agreement. How many days does it cover?

Determine how many days of use would there be once the VMI process is fully operational.

Determine the implementation rate of the new VMI process enabled by papiNet WoodX e-transactions. In our example, we exemplified with a development of VMI process in 5 years time aiming to cover up to 80% of the articles used.

Conclusions

The reduction of working capital, which in our example turns out to be extensively reduced from 14 to 5 days, will enable your company to invest in a more profitable way. As a result of this reduction, an immediate benefit is given from the fact that you won't need to generate the 15% (WACC) yield on the 9 days value representing the working capital you have virtually eliminated. This benefit could be added to any personnel savings.

10.3 Costs

Implementing a new system involves hardware and software investments, consultancy and manpower fees, and possibly other kind of expenses.

We took into consideration the same time period of 5 years and distributed the estimated costs.

10.4 Profitability

Our example demonstrates the profitability if both options are adopted in a company. It demonstrates the benefits of a revamped VMI process fully supported by papiNet WoodX electronic transactions.

2009-12-10

11 REVISION HISTORY OF THIS DOCUMENT

Date	Change
30.9.2008	Document for V2.31
10.12.2009	Updated & Document name is changed/ PPesonen

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