

THE VEST-WOOD BUSINESS MODEL



We want to be no. 1 in Europe

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PREFACE

Dear employee

Since the spring of 2002 Vest-Wood has been working according to a new strategy that will make us the no. 1 supplier of door solutions in Europe.

So the target is clear:

The no. 1 supplier of door solutions in Europe

We are a large group and to achieve this ambitious target, it is necessary that we all follow the same guidelines, but without taking away the initiative and responsibility of each individual. Therefore we have prepared this folder to describe the guidelines and thoughts that define the strategy.

We call these guidelines:

The Vest-Wood Business Model

Through several years the model has existed in the world of many "Vest-Wooders" and we have achieved a lot of success where the model has been applied.

But with the current size of Vest-Wood, it is important to document the model so that we all get the opportunity to know how and why we do the things we do.

The business model seeks to describe a large, complicated and substantial business in a simple way. If we all understand how the business works we will also have the opportunity to take responsibility and react faster and more expedient in an ever more competitive market. It is our ability to be continuously responsible, prepared for changes and flexible that will enable us to achieve our target.

As always our new target will be reached by showing a mutual trust, responsibility and respect for each other.

Enjoy the reading

Asbjørn Berge and Jens Bach Mortensen
02. June 2003

VISION

Vision

The vision of Vest-Woods is to be the leading and preferred supplier of door solutions in Northern and Central Europe based on the groups reliability and ability of supplying door solutions and services that comply with the needs of the customers.

Everything changes. A controlled change is called development. Vest-Wood has the above stated vision which also describes the various means that will be used to reach the target.

The foundation of our company is based on central coordination – with decentralized managed and decentralized focused result units based on the concept "Think global – act local".

The local engagement, ability and will of our responsible employees is the condition for reaching our targets.

Our new strategy means that Vest-Wood during the coming years will develop in a number of areas including a process:

FROM:

Nordic no. 1

Wide service of the customers per geographical market

Local companies with own strengths and weaknesses

Competence on local units and areas

Product oriented where the customer buy what we produce

TO:

European no. 1

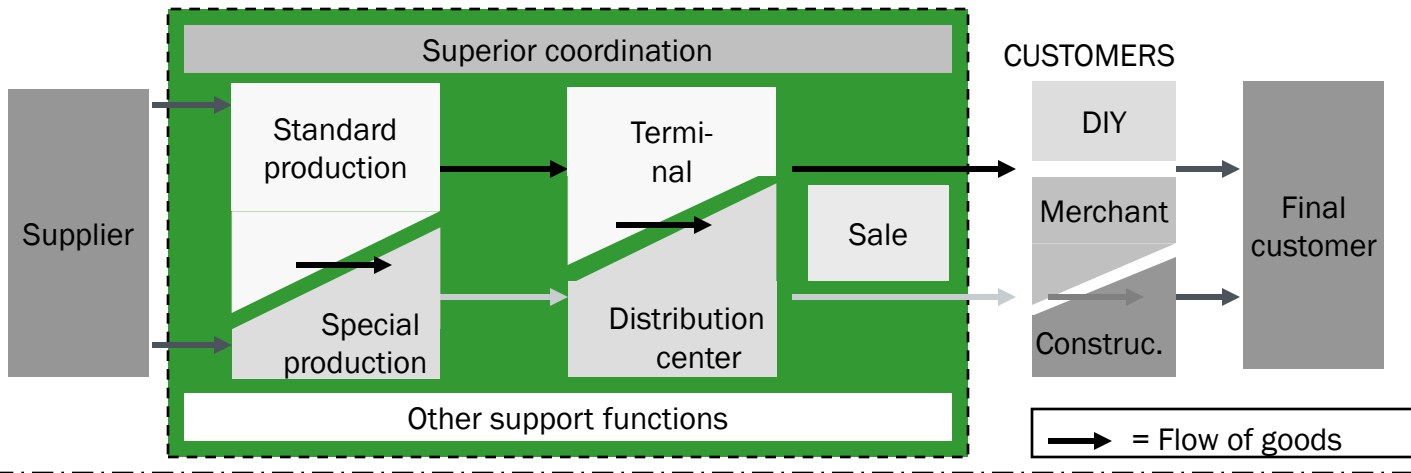
Focusing on the real needs of the markets and the customers

A large international organisation with local focus

Competence both central and local – we share the knowledge

Market oriented where we produce according to the real needs of the customers

THE VEST-WOOD BUSINESS MODEL



Introduction to the Vest-Wood business model

The Vest-Wood business model is indicated in the above figure.

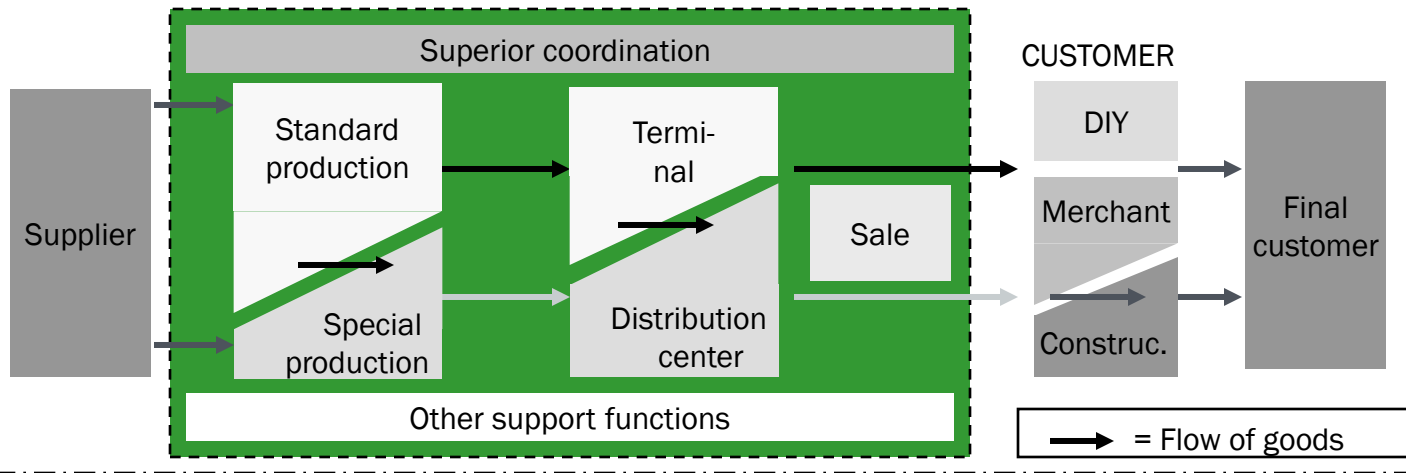
The business model has the purpose of maintaining the thoughts and guidelines that are defined for the future Vest-Wood and that thereby will work as frame and target for the further development and growth.

The business model is process oriented meaning that it supports the processes where we create the largest possible value for the customer.

The business model indicates the frame for the work in each of the decentralised units enabling us, also as a joint unit, to create the largest possible growth and achieve the best possible result.

Likewise the business model has the intention of securing a fast and safe superior co-ordination of decisions. As a consequence of this, our decisions will, to a greater extend, be based on facts.

ELEMENTS OF THE BUSINESS MODEL



Below is stated a short explanation to each of the segments of the model. On the following pages each of the segment will be described in further details.

Customers:

The sale for final customers is carried out through a number of different channels:

- DIY
- Merchants
- Construction

Sale:

We want to be market oriented and still develop products, sales concepts and services to cover the varying needs of our customers. We need to focus on:

- Turnover and earning
- Efficiency in sale and submission of tender
- Customer satisfaction
- Prognosis reliability

Overall coordination:

Through systematic analysis of the needs of the market, we will systematically co-ordinate, how our products will be developed and produced, and where our production related capacity will be used. Focus must be on:

- Delivery time
- Delivery performance
- Capacity control

ELEMENTS (continued)

Terminal / Distribution centre:

The primary operational tasks are to secure an efficient distribution, basis of planning for rational production and least possible stores, with a focus on:

- Delivery time and -security
- Equalisation of strain in the production
- The logistics needs of the customer
- Capital binding in stores
- Logistics costs
- Sales related support

Production:

Specialised factories manufacture standard- and/or special products in the most cost efficient way. We want to be flexible as regard capacity to comply with the market needs in areas such as:

- Production lead time
- Plan observance and delivery
- Secure the agreed quality level
- Cost efficient production
- Development of process performance technology

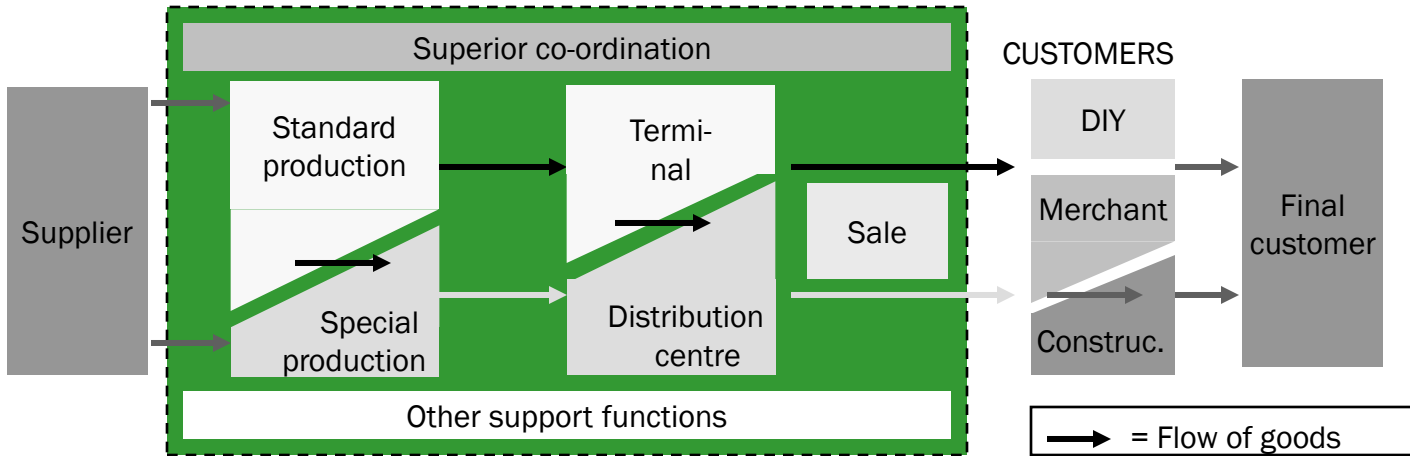
Support functions:

In the purchase-, personal-, economy- and IT-departments we will continue to develop and offer efficient systems, tools and routines that support the order bearing business processes and functions.

Suppliers:

In the future suppliers will play a significant role to secure more and improved services in our efforts to fulfil a larger part of the market needs. The suppliers will be a natural part of our supply chain and chosen development tasks.

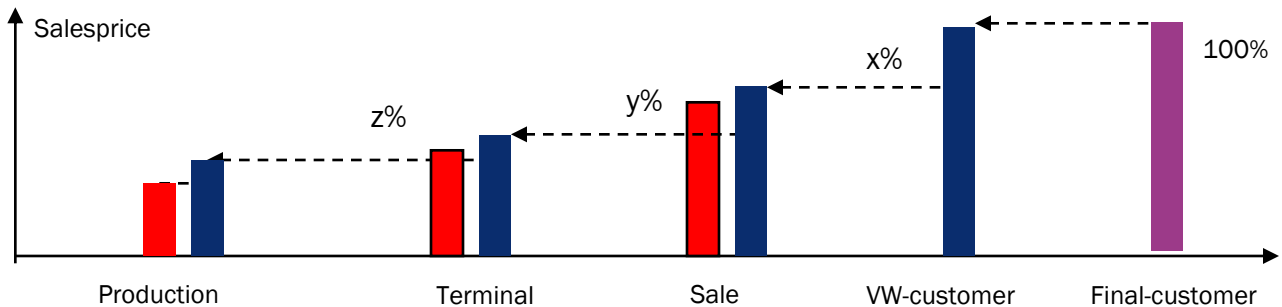
PROFIT-CENTRES



Principle:

To be able to measure the result of the effort in each function, we are working with a concept called internal settlement. The principle is that the production sells to the terminal who sells to the sale etc.

The price between the functions is set as a percentage of the gross sales price. From the income of the function (sales settlement price x pcs.) *marked with blue* the costs of the function must be paid *marked with red*, so that each function must secure a positive result.



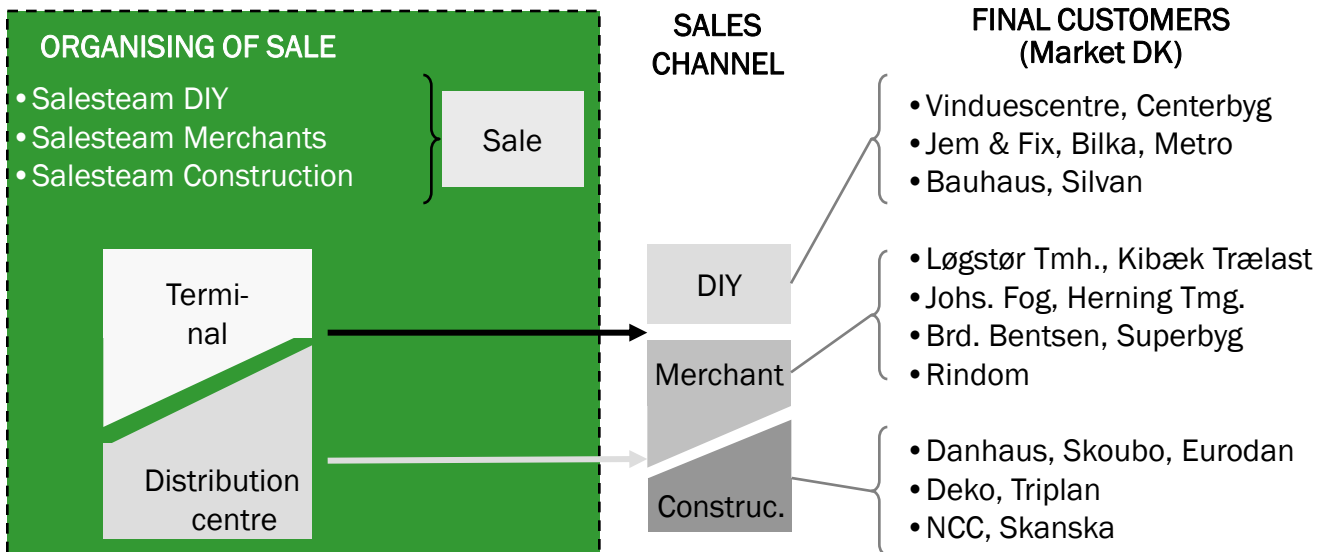
Calls for:

- Fast reporting followed by a fast start-up of corrective actions
- Valid and standardised calculations
- Knowledge of what we earn ("Stand-of level" in the sale)
- Knowledge of which activities are pulling which costs ("Step-in-level" in the production)

Results in:

- Growth orientation
- Continuous focus on cost efficiency within all elements

SALES CHANNELS



Principle: To optimize the sales effort a number of sales concepts have been developed for each sales channel, that will make sure that the purchasing criteria of the customers will be taken into consideration on each market.

To make the most optimal marketing of our products a multi-channel-branding strategy will be carried out. This means that the same product can be marketed under different brands.

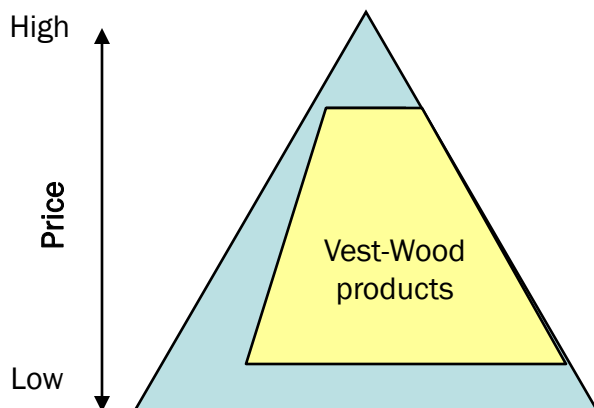
The difference in the demands and expectations that we already experience today from the various sales channels will increase further in the years to come.

To adapt to these various demands, sales will be organised according to the segments:

- **DIY**
- **Merchants**
- **Construction**

Results in: For each of the three sales channels a number of sales concepts will be developed to support the sale. This will result in varying demands for products and services.

PRODUCTS AND SALES PRICES



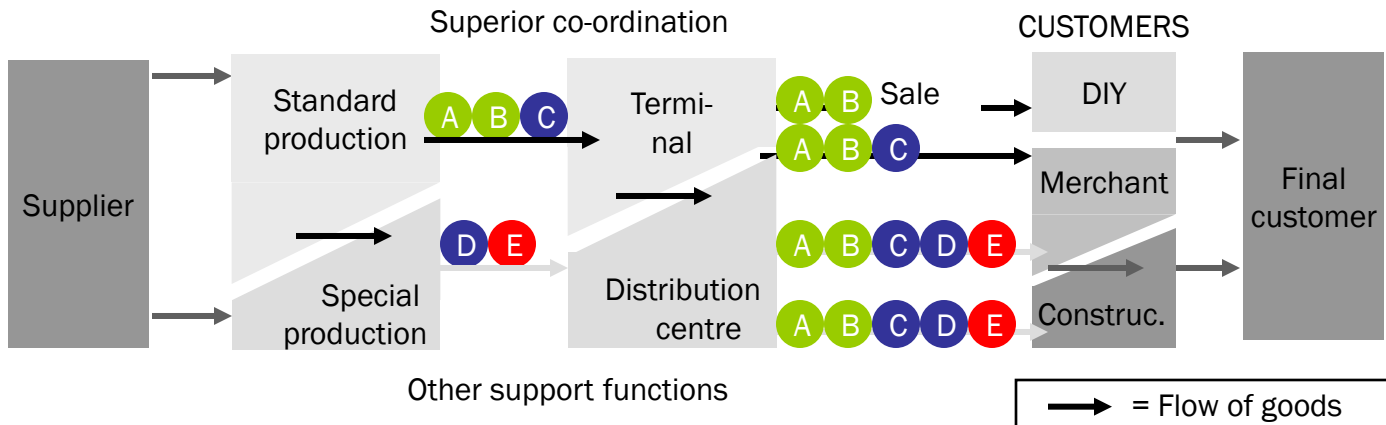
Principle: Vest-Wood offers a large, limited range, as we do not wish to be represented in the entire price pyramid (the blue field in the figure). Our internal demands mean that there will be products which we do not wish to produce due to **environment, price, delivery time and quality**.

The products are divided into five groups of articles that through chosen criteria will secure a uniform and efficient handling of the production order in question - and the right price.

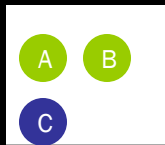
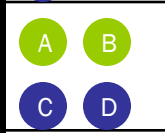

Type of article	Characteristics	Set of rules	Std. size	Std. comp	Store
Standard stock goods A	Standard goods produced in larger series.	Fixed Article number	●	●	●
Standard-goods B	Standard goods produced according to order.	Fixed Article number	●	●	
Adjusted standard good C	A or B article delivered with adjustments.	General rules		●	
Limited special good D	Article defined within measures and facts	Project price list	○	○	
Special good E	Fixed criteria defines which special articles we do not wish to/can produce.	Technical limitations/ business related interesting			

● demands ○ Possibility

PRODUCTS AND SALES PRICES



Determination of sales price is based on the market price and the contribution margin is secured by costings:

	The consumer price list with fixed prices determined by joint estimation of the market price versus wished earning from a complete statement of cost price	Centralized planning
	Project price list and specified additional price cf. Standard rules	Centralized determined rules
	Costing principles related to "allowed sale" (known production related limits)	Centralized determined principles

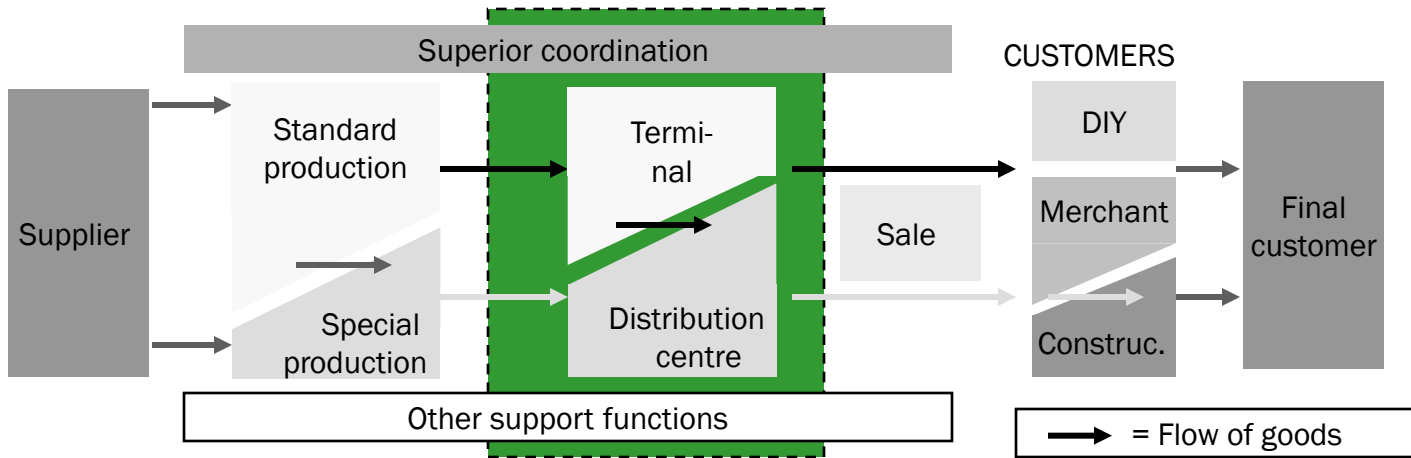
Calls for:

- Different earning expectations for each product - and service group
- Fixed and transparent price calculation, supported by IT
- Services must also be priced (f.i. special packing, special commissioning or specific distribution day, service agreement, maintenance etc.)

Results in:

- Basic need for current costings
- Minimising of the administration time
- Calculation system and price lists, so that chosen customers can make their costings themselves

TERMINALS AND DISTRIBUTION CENTRES



Principle: Geographical closeness to the market is necessary to be able to distribute efficiently regarding both delivery time and costs.

Operational jobs:

The local terminals and distribution centres must secure an efficient completion of orders and distributions to the customers – including current supervision and an optimization of the rate of turnover on articles carried on stock.

Development jobs:

Terminals and distribution centres must secure a forwarded development of the administrative systems so that we adapt to and develop the customers logistic solution.

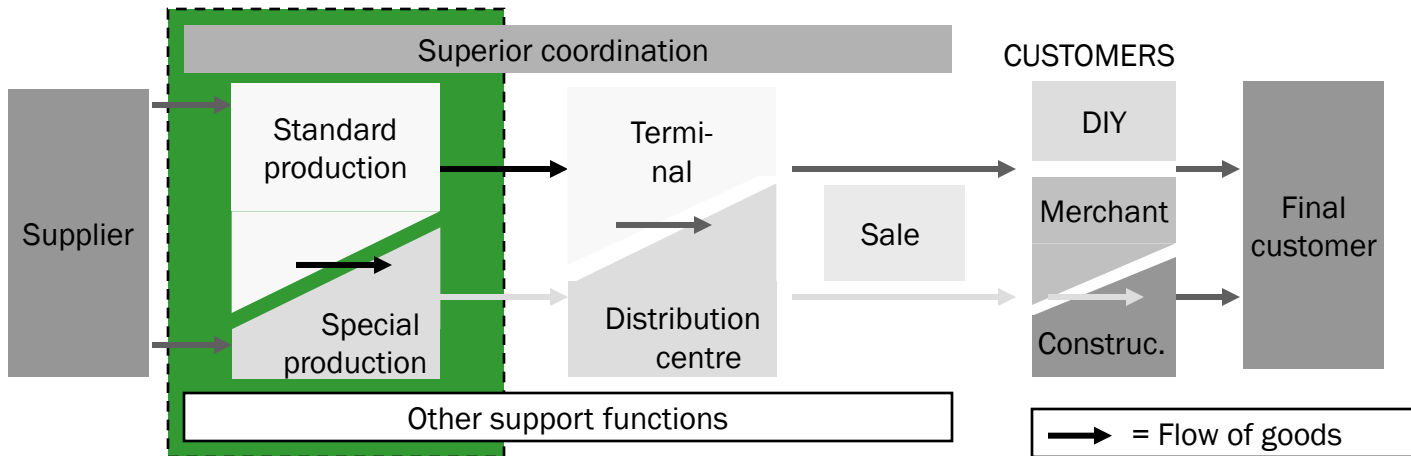
Calls for:

- Focus on optimizing the operational task concerning stock and distribution
- Focus on master data
- Within or nearby to the terminals / distribution centres it must be possible to make minor changes on standard components leading to a minimization of the delivery times.

Results in:

- Fast delivery
- High delivery performance
- Cost efficiency

PRODUCTION



Principle:

The most cost efficient way of manufacturing and manufacturing unit must be used under consideration of the target for the delivery performance. Therefore the standard products are manufactured in large series on technological advanced and highly specialized factories, while the special products are manufactured in smaller series on flexible factories / departments with a high degrees of turn-over efficiency

Operational

tasks:

Secure the observance of the plan, quality and cost efficient production. In the special factories the volume flexibility will be increased in cooperation with internal and external partners.

Development

tasks:

The factories must develop optimised production processes and employee competence that reflects the focus of the factory.

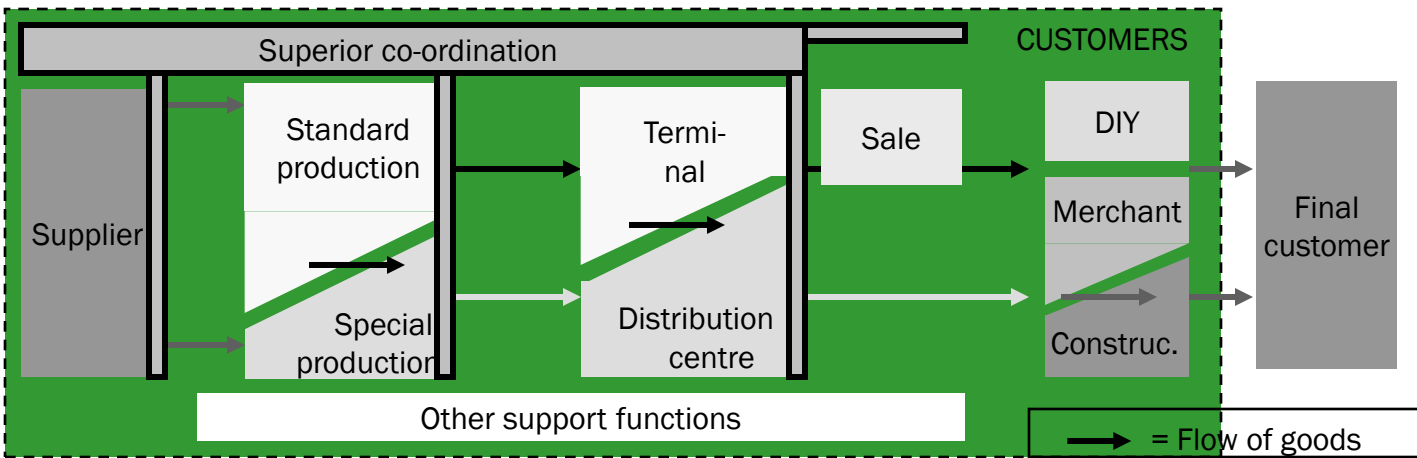
Calls for

- Current cost optimizing – and focus on daily operation
- Main planning – determination of the right capacity levels for each factory
- Flexibility in the various factories and mobility between the factories:
 - machine capacity and employees
 - continuous effort for reduction of the lead-time
 - strain equalization in stocks on finished articles in the terminal

Results in:

- Efficiency and short delivery times adjusted to the market needs.

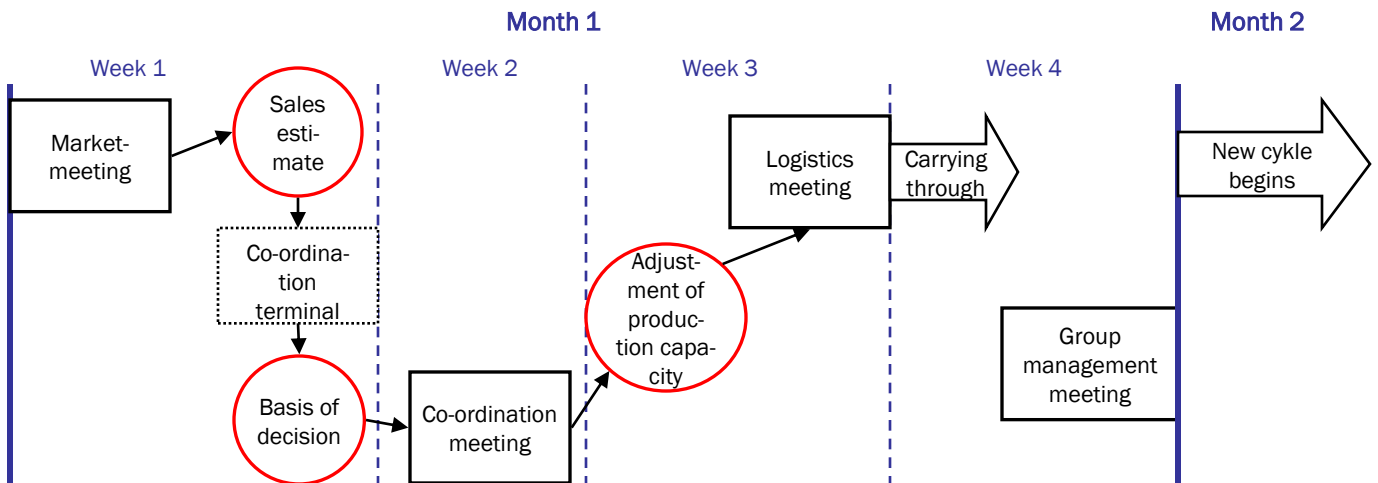
MANAGEMENT CONCEPT



Principle:

The control concept illustrates, how we through all involved functions, make sure that the customer receives the goods on time without any unnecessary large stocks or administration – and most important at a competitive price.

The capacity planning will take place once a month according to a pre-determined pattern. The purpose is to secure the co-ordination of the activities between all the functions in the entire chain - so that both stocks, delivery time and costs are at a low level.



The main planning is responsible for the delegation of production across the factories - and the overall co-ordination between sale and production.

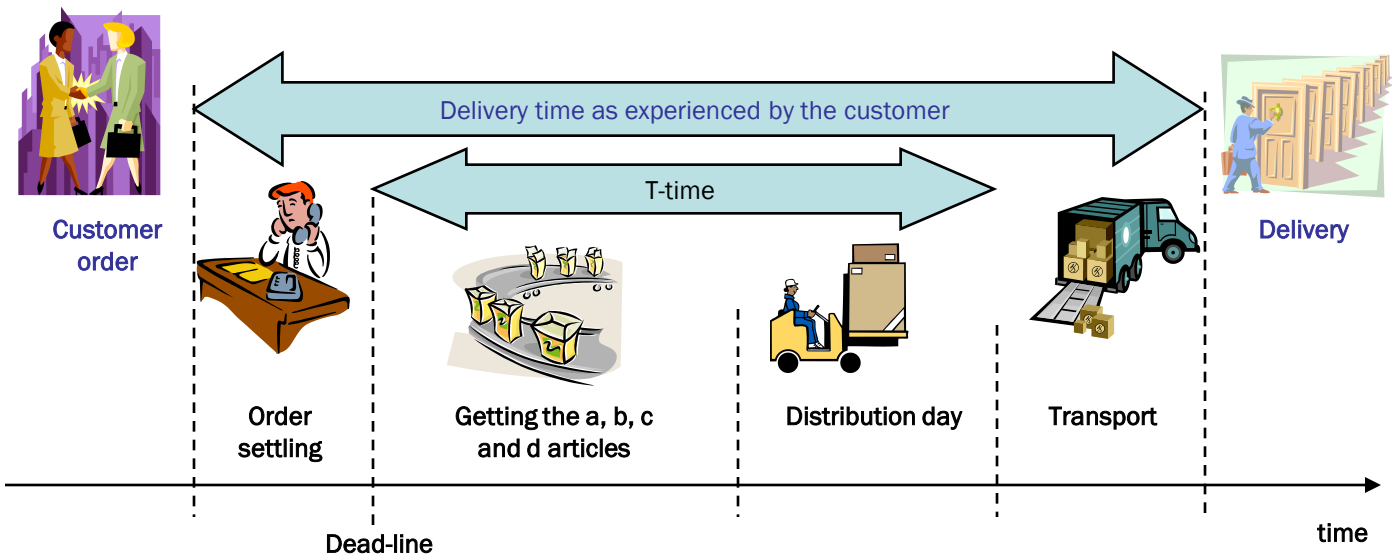
Calls for:

- Data survey of production, sale and stock
- Data analysis and preparation for determining the right production levels
- Data analysis and preparation enabling a prediction of the season activities

ORDER FLOW

Principle: It must be possible for the customer to get information at any time concerning when the article can be delivered. **The promised time of delivery must be observed.** The customer experience of the delivery time, is the time that passes from the placing of an order to the delivery of the order.

Internally we are operating with a concept called T-time, which expresses the time that passes from the deadline of the article in question and to the time where the article is ready for transport from the loading platform.



- Calls for:**
- Continuous reduction of the lead time in all segments - both administrative and producing processes.
 - Current forwarded information through all segments in case of possible delays
 - Correct master data so that the preparations can be carried out without any mistakes.
 - Correct master data so that the production job can be carried out without any mistakes
 - Minimising of time for order settlement so that we can guarantee the production more flexibility

- Results in:**
- Cost efficiency and short delivery times adjusted to the market needs.

IMPORTANT ACTIVITIES

1. **Sales focus on covering the customer's needs with standard solutions** (the article groups A, B, C and D) and make sure that we back out in advance from the special tasks which do not generate a satisfactory earning
2. **Let the customer do the administrative jobs.** Secure the procedures and the IT support so that the ordering job will be simplified to such a degree that chosen customers themselves are able to make the offer calculation, ordering routines etc.
3. **Capacity-overlap.** To the extent that it is possible we must use the competence related overlap of the specialized factories, so that the delivery performance can be secured – which means that we need an emergency plan
4. **Overall coordination and organisation.** Secure that the production of the group is carried out in the most cost efficient way in the most cost efficient units. Jobs will be carried out where the competence is (must be)
5. **Shorter delivery time.** Especially on the project market delivery time is a determining factor. The production facilities must be increased enabling compliances to the market needs in a better way.
6. **Mobility among employees.** Competence development in the special factories with focus on the fact that more employees should be able to carry out more processes
7. **Reduce the seasonal fluctuations.** Secure the correct production level through analysis of sales, trends and season etc. to secure the basis of cost efficient production and a high delivery performance
8. **Simplification of business processes.** With a view on both the simplification of the demands for the new common IT-system and on optimizing the administrative tasks, the business processes will be reviewed for the purpose of simplifying and emphasizing the responsibility.
9. **Master data** Secure that the master data have been created and that they are correct before the article is released to production and sale
10. **Set up target and follow up on performances compared to target.** Secure that target for key figures across the order bearing processes are made, coordinated and controlled.
11. **System related simplification.** A new integrated IT-system for sale, terminal / distribution centre and economy will be implemented throughout the entire group.

WORD EXPLANATION

BPR-process	Business development process
Constructors	Contractors and manufacturers of prefabricated houses and wall units. Contractors and developers of larger constructions that often have special demands for each project, where the delivery is made directly to the factory or the construction site.
Cost effective as possible	Try to minimize all costs (for instance wages and production costs) as much as possible
Dead-line	Last time for registration of order.
DIY	Detail chains or –businesses that typically only sell a limited number of standard articles aimed at private consumers
ERP-system	Business related IT-programs
Business model	The business model has the purpose of maintaining the ideals that have been defined for the future Vest-Wood, and that thereby will function as guideline for the further development and growth
General rules	Standardised and priced opportunities that are found to make customer fitted products from standard semi-manufactures.
Channel	A certain group of distributors or wholesalers through which the products of Vest-Wood will be sold to the final customer
Goods carried on stock	Standard articles with continuous high turnover and that therefore economically can be produced in high quantities and following can be delivered directly from stock
Delivery time	Calendar time starting from the order of the customer and ending when the customer receives the article
Merchants	Dealers for building materials and wholesalers typically serves both private and business customers offering a high level of service .
Prognosis	Quantification of expectations to the future
Segment	Part of the market which shares the same features as regard needs and purchase patterns
Master data	The identity of the product (model, type, list of pieces, operations, prices)
Standard sizes	For each market, there is a number of standard measures on the doors
Terminal concept	Set of rules under which these defined products can be handled
T-time	Number of work days from the change-deadline to the time where the product must be ready for dispatch. In this is included possible production lead-time and handling time for packing and dispatch, but not waiting time according to the weekly distribution day.

THE VEST-WOOD BUSINESS MODEL AND AXAPTA

In this folder we have tried to describe the targets and guidelines that we have for our daily business in Vest-Wood. The development of this business model will, together with the introduction of a new IT-business system (Axapta) form the platform for a reasonable further development of Vest-Wood.

The basis for success involve changes in the daily life and as management we feel that it is important that everyone are equally informed concerning these changes. If there is something that you do not understand – or something that needs to be elaborated on, please contact your organisation to get an explanation – if we do not understand the tasks and have the solutions explained, then we cannot carry through this project with success.

Vest-Wood has chosen Axapta as new platform for our IT business related systems (ERP-system). We have chosen this system as an open and modern system that with few adjustments can become the best “door-system” within the trade.

At present standard Axapta is not able to handle everything. In the new future we will structured and systematically describe what we “need-to-have” and what would be “nice-to-have”. We are willing to invest money, competence and resources in the necessary adjustments (need-to-have) to achieve the optimal system for us.

Even though we are well prepared, there will be changes and updatings in such a large and extensive project, that includes all aspects within our company. Therefore we will strive to inform you on a regular basis as these changes occur.

Our total project is organised with a centralized managing group (Asbjørn Berge, Jens Bach Mortensen, Ole Madsen and external representatives from the suppliers) and a centralized project management (Peter Levinsen). The centralized IT-organisation under the management of Kim Nørgaard Jensen is of course also important for the carrying through of the project. But most important for the success is that sub projects are organised locally with a local engagement (involvement, resources and competence).

We expect your positive approach!

”DOOR BUSINESS IS CORE BUSINESS”

This folder is edited by Vest-Wood, June 2003

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