



Positive Response
6009 Tuswell Drive
Dublin, OH 43016
614.747.2256
www.positiveresponse.com

Interview Questions

1. What we are trying to get at here is, in essence, what makes ___ unique? What can we say about ___, that's relevant and beneficial to the prospective client, that none of our competitors can say about themselves? (And we want to say it in simple, straightforward, easily read and understood English.)
2. How many full-time employees do you have? How many of them have some sort of professional designation, i.e. P.E., CPA, PhD or some other?
3. Tell me about the founder and other noteworthy key executives and their accomplishments. (Now is not the time to be modest or humble.)
4. Give me some examples of the competence and skills found on ___'s payroll that might not be available on your targeted companies' payrolls.
5. What details can you give me about "____© for benchmarking and _____© for both reverse-costing and sourcing"? What success stories do you have of companies using these products?
6. What is the biggest direct cost reduction you've ever achieved, what were the circumstances and how long ago?
7. How do you address the prospect's thought that this process could cause a big upheaval and be disruptive among long-time executives, managers and other valuable employees? Also, that other employees may become concerned about losing their jobs and this may affect productivity?
8. What percentage of time, on average, does your work directly result in a headcount reduction?
9. Give me a specific, real-world example of each of the following and short summary of how ___' work turned things around:
 - a. Declining margins due to increased raw material prices and direct product costs.
 - b. Loss of market share to new competitors with lower prices.
 - c. Shortened product life cycles due to cost pressure.
10. "...commodity and launched a global RFQ that netted the validation of two new LCC sources." Does LCC stand for "life cycle costing"?
11. What is the percentage range for your "success fee" and what determines this number? In other words, what determines how much of your overall fee is contingency-based and how do you determine that number?
12. CAPEX stands for "capital expenditure," right? When you talk about a "CAPEX investment" you're talking about a large expenditure like for a manufacturing plant or a distribution center, correct?
13. Give me a few examples of ___'s "highly trained and experienced specialists." Tell me about their backgrounds, expertise, experience, training, technical qualifications etc.
14. Over the past 25 years how many companies would you estimate you have helped?
15. Over same period what would you estimate to be the dollar value of benefits you have delivered to ___ clients?
16. How many different industries has ___ successfully completed project in? In what industries do you have the deepest experience and expertise?
17. Looking back over the last 5 years, rank the below categories according to those that have generated the most work for you?
 - a. Reducing Costs of Existing Products
 - b. Designing to Cost New Products
 - c. Reducing Purchase Costs
 - d. Optimizing Investments
18. What do you feel are the three biggest challenges you have to address/overcome in telling your story?

19. Briefly describe key specific details that make up the following components of your work: cost analysis, creativity sessions, supplier workshops.
20. “Last year we completed collaboration with a sliding cabinet doors manufacturer who had lost market share in the hard discount segment... to implement the following changes:”
 - a. Drastic reduction of overall packed volumes by changing design and arrangement (- 50% on packaging and transport cost), - key details on what you did in this area
 - b. Optimization of material usage on profiles, and – please explain
 - c. Innovative concept for sliding device (better aesthetics, smooth perception when sliding, 20% less expensive)
 - i. Why is it you feel that the company was able to achieve these results with your help when they couldn’t do it internally without your help?
21. Give me examples of “looking for breakthrough” and “increase differentiation.”
22. How many different tier-1 automotive suppliers have you worked with?
23. What would you estimate to be the value of all the savings or enhancements you have delivered for this segment?
24. What does the “no cost preliminary diagnostic review” entail?
25. “Select and Prioritize based on EPA (Energy, Profitability, Adhesion) ranking” – please explain.
26. “Provide efficient tools for Monitoring” – What are your most important and valuable tools?
27. “Optimize human resources by quickly focusing on most rewarding topics” – please explain.
28. “Build an internal legacy for the Client, a new set of skills essential to sustain competitiveness” – please explain. I take it that this means you’re leaving them with a “new process” or “roadmap” that they will be able to follow in the future to duplicate the results you helped them achieve.

Ernest Nicastro: We're looking to gather information that will help us put together a document that has very specific benefits and details about what ___ brings to the table and what differentiates your organization from some of the others that you're competing against for business.

Executive: I think we can start at least following the list of questions you sent, except we may go off on some subjects. So, starting with what makes ___ unique? One of the points is we lead the experience that we have in what we do. It's an experience in cost reduction, cost expertise that we have accumulated in terms of years, at least 25 years – 27, actually, for ___. What we do actually started even before ___, and we'll come back to that maybe a little later. First point, accumulative experience of many, many years of projects.

Another point of uniqueness is our people – the fact that our consultants are all high-level engineers with engineering backgrounds, that really are passionate about involving themselves at the heart of the subject, going deep-diving into the core details. So they're really able to bring an economic and technical understanding to the project, to identify levels for improvement, and also, that as they work on different projects, of course, mainly industries, they bring back the cross industry expertise to the client. On top of that, of course, since we've been around for many years, we have also a growing database about costs for different technologies, for different materials, or similar technologies but applied in different ways. So this is really what makes the uniqueness of ___. The high-level people, the fact that we've been doing this for many, many years. Of course, we focus on improving in the margin for our clients, cost reduction is really our core competence, and the fact that there are probably other competitors that say similar things, but they have not necessarily been around for that long, as I said.

Ernest Nicastro: Who would you consider to be your top competitors?

Executive: In terms of names, in general, we see PRTM, here in the States, sometimes we cross paths with Roland Berger, I don't know, Executive, what are some typical competitors?

Executive: Usually, most of our competitors are more working on methodologies than on real expertise in costs, so there are many, many companies working in venues like this who try to have the same approach as the one we have, but the thing is, most of the time they don't have the background in cost expertise, so it's difficult to say who are our main competitors. It's more different companies with different profiles. Some are a branch from a very large consulting group, okay, but not specifically working in our field of activity.

Executive: That's a good point. There are some companies that you may consider as competitors but maybe the attention they pay to costs is just one practice among others, while focus on cost is our only practice, if you want.

Executive: On direct costs; not on cost of structures and not on SG&A, so it's really working on the reduction of the cost of products, on direct costs of investment; it's rather specific.

Ernest Nicastro: I've seen that in your material that your focus is on direct cost reduction and that's your only focus. Whereas, other consulting firms similar to yours, that's one part of what they do, so I think that can be a differentiating message that this is all we do, this is the only thing we do, this is our sole reason for existence, and so on.

How many full-time employees do you have?

Executive: It's about 30 full-time employees at ___, and you were asking what type of profession and designation – all different kinds. They have at least a Master's in Engineering; it can be mechanical

engineering, electronic, electrical, telecommunication. We call really all the branches that you can find, so that's really the pool of resources that we offer as well to our clients. In some cases, it's completed by MBAs, I have a Ph.D. myself, so that kind of complementary information that you can have.

Executive: And we have about 2/3 of that number of people who are consultants.

Ernest Nicastro: So, roughly 20 of them are consultants. Okay, anything that you can tell me about the founder and other noteworthy key executives and their accomplishments? As I put in the questionnaire, now is not the time to be modest or humble!

Executive: About the founder, who is the current president as well, Daniel Petit – he started working at Snider Electric, sometimes in the States it's known as Square D, and then he started working as a consultant at the beginning with a company, and I think the company actually started in 1958. Then he finally ended up merging this company with two others in 1982 to create _____. He started working with this other company and the merging of three companies ended up creating _____ in 1982. And Daniel is the current president.

I can maybe speak about some achievements of the company, of _____. He was telling me that _____ was actually the first company in front of, definitely in Europe, I would need to ask Daniel, it was the first company to apply value analysis to processes so that's quite a good point. It was also among the first companies to create a purchasing platform on the internet. Nowadays you have a lot of websites that allow you to do RFQs, RFIs, reverse auctions, but _____ was among the first to create [Executive: one of the first, I would say]. And it looks like we were first also to create a software that allows you to easily benchmark your products and the technologies involved in your products and to see visually the results – that's actually the _____ software you saw in the document I sent you – and we can tell you a little more about that later.

Executive: The first, and possibly at this time we don't know about existing competition in that kind of approach.

Ernest Nicastro: We covered No. 4 a little bit: examples of competence and skills that are found on your payroll. Are any of these skills – do you think most consulting firms have these skills available – some of them, none of them? Would you think that differentiates you in any way?

Executive: I would say that the fact that we go across many, many industries you will see definitely brings to all our people, of course, in the industry this expertise. Even if a consultant is an electrical engineer, it doesn't mean that he will be only working on projects in the electrical field. He's going through mechanical, electronics,... so it means that each and every person adds a certain cost industry expertise. And also, in some cases, you have a high-level engineer that has become a manager from a competitor that goes and sells the project, but then they put some trainees and engineers right out of the school to do the actual job, while in our case, we really have these high-level engineers that will be on the project, working with the team, so they have the ability to really analyze the cost, identify drivers, leveraging, ...

Ernest Nicastro: That kind of triggers a question: On average, what would you say the number of years of experience your engineers have – on average, 10 years, 12 years, 15 years?

Executive: What do you think?

Executive: Most of the consultants who are with us have previous experience before entering in ____ of at least five years, before entering in, in success in the industry. After that, within ____, I would say that they average is between five and 10 years.

Ernest Nicastro: Okay, good. The _____ program – what details can you give me about that _____ for benchmarking and rolling costs for both reverse costing and sourcing? What success stories might you have of companies using these products?

Executive: Let me start to tell you something about _____ and I knew Executive can add something of some of the applications of _____. As I was saying, _____ really allows you to compare graphically – you can have curves, to see what you have – to compare on a same and selected criteria and on a certain technology, different components that you have inside your company – different components of a subsystem that you have in your product portfolio, and as you compare these on a selected criteria technology, you can identify some gaps. I think in one of the presentations I sent you, you were able to see an application of _____ to fuel tanks, where we're looking at the thickness of the wall and comparing fuel tanks that are very similar but with some specificities, you're able to see gaps and then ask yourself, "Okay, is this gap justified by – oh I don't know – chemical requirements or annual volumes, or is it just a problem we need to take care of?" So it allows you also to identify some quick wins, in some cases it's just a quick fix that can give you some nice savings. So, as you saw, it's being used by Inergy, who is one of the leaders in fuel tanks in automotive. It's used by Schneider Electric as well. Actually, coming back to Inergy and the fuel tanks, the way it's used is really because, as we said, the systems are similar but each with its own specificities, so _____ allows them to pick and share the best practices for each function worldwide. _____ is very good for multinational companies worldwide where you have different divisions and sites, so there's a more homogeneous approach to the cost reduction across the different divisions. It's used, for instance, by Petzel; it's one of the leaders in sports equipment. In that instance, it's mainly used for purchasing. I don't know if Executive you want to add something about _____?

Executive: I think that you may not understand what we mean by comparing items in the same technology. It's something that looks very common, the thing is that always you have never exactly the same thing, and there are always some good reasons to have some difference in costs because of difference in design, difference in suppliers, difference in area of supply, or specific requirements, and people have really a difficulty to define what is the reason, why this product costs more than this one that looks rather similar, etc., but there are always these differences. So what we do is we define this criteria and a cost model that the products of this technology should follow and based on this consistent comparison, then we are able to identify the items which are not on that theoretical curve. So, either after that you see what are the best practices, ones that are really the best cost performance level, and you have also all the rest that represent the items which are penalized by something. It could be just excessive cost due to not very good negotiation, not very good supplier, so in this case, it could be a quick savings by renegotiating or changing the supplier. It could be due to some specific design or some specific industrialization condition, and in this case, the result is to learn about how to make for new development the new product, a deliver of the best practice, or even better than the best practice, due to this understanding of the cost factor. That's the approach we have by using _____, which is simple, visual, you have the picture of the lemons to immediately see what is the results without a long description, long discussion – everybody understands. You can share it all over the world with enough people working on the same items, just looking at the same picture, looking at the same graphic, etc., and having a discussion around to facilitate on the same thing. That's the key strength of that tool.

Ernest Nicastro: Thank you. What is the biggest direct cost reduction you've ever achieved and what can you tell me about the circumstances of that particular?

Executive: Just to finish on the previous one about calling costs; calling costs is an online purchasing platform, so it allows you to easily RFIs, RFQs, reverse auctions, and it's something we really use almost on every project we do. It's a major part of ___ services, if you want, when you have a project. So of course, it's also fed by all the economic data, cost of material, cost model for different processes and technologies that we come across on the different projects. It's also partly database for us, with all this cost information that we come across on the different projects. It's a specific cost reduction ...

Executive: It's also a specificity of ___ because, as I mentioned, many companies bring more methodologies so it means that we are also able to bring some cost elements, some proposals in terms of alternative suppliers, etc., which I would say completes our mission. It's now having an internet platform, an internet to purchase; it's not something unique, but the fact that we have our own experience and in very different industries, gives us also really a good cost base, cost preference, that helps us to be efficient and propose some external best practices when we work on some technologies, that helps people to move, to accept, to change their minds ... I think that's something that's important in our approach.

Executive: Thank you. Speaking of the biggest cost reduction, and it's actually a project on which Executive spent quite some time – I think it was a 60-percent reduction. You know the RJ-45 connector that you have on your laptop? You see the little connector on the internet? I think it was a project back in around 2003, and I the reduction really involved the functional analysis of the product, benchmarking of the competitors, of course leveraging all different cost reduction opportunities. So, Executive, do you want to add something to that specific project?

Executive: In terms of cost reduction, yes, that's one of the most, highest percentage that we reached. It's a secret, but it's not very recent, so we can speak about it.

Ernest Nicastro: And the percentage amount you said was 60 percent?

Executive: Actually, I have quite a good document that Executive put together about the project really showing the different steps of our approach and what we did, so I think it would be good to share that with you, Ernest.

Ernest Nicastro: Yes, I would like to see that. That would be good. I've looked at everything you've sent me, but I don't recall seeing anything quite like that. Okay, how do you address the prospects of thought that your process and bringing you in could cause a big upheaval and be disruptive among long-time executives, managers, and other invaluable employees?

Executive: Well, the important thing to understand is that when we come in, it is not about disrupting the processes in place, although, of course, in some cases we may need to improve or put in place some methodologies.

Ernest Nicastro: Let me interrupt – I understand that's not part of what you do, but there may be that perception in the prospect's mind. So it's how you deal with that.

Executive: That's why it's important to communicate that our intervention is about coaching the people we work with. We put together a team of experts coming from the client, so some engineering, some purchasing, marketing, production, all the experts that are needed for the success of the project, and we use the expertise that is already present at the client. What we do is we act as a catalyst to improve what is already being done. So that's really important because it means that it is not our result, it is not the consultant's idea, but it's a result of the team that they are able to achieve themselves with our support.

Executive: There is not a team coming from ___ and replacing the people in place and doing the job in place of them. We work with the people, so it's a common result at the end. And the way we are able, then, to implement things, if they perceive the ideas are ideas from the consultant – in this case we are losing the key point. Our approach is to make people consider that it's the idea of the team and they then consider that it's their own ideas, and then they push to implement them. Otherwise, they are reluctant to implement them. We have many managers with whom we have worked in the past who have asked us to help them in some situation, and now it's a good point, because they have been able, whatever the result is, to use, they have been able to make situations change and significantly improve, and clearly, it helps them in their career.

Ernest Nicastro: So, your work is not about reducing headcount, necessarily.

Executive and Executive: No.

Executive: The answer to the question is negligible – what percentage of time does your work directly result in a headcount reduction? I would say it's negligible, unless, of course, it's specifically part of the scope, like to reduce the labor content in a certain area. Actually, the cost reductions we bring lead to a competitive advantage and also an optimization of the resources to produce an optimized version of the product. I would also say that in some cases our intervention can also help actually save jobs. For instance, just to give you an example, you probably read about the Inflight Entertainment project we did? Part of the project started as a cost reduction, but then we ended up also outsourcing 60 percent of the high-volume product, a big impact in the savings. And the hiring was up 250 percent.

Executive: We have tried to have a simple method, which is cost reduction. In fact, our business is to improve the competitiveness of the products. It means that after one action, the result in terms of competitiveness of a product is better, and in all cases – or in most cases – it results, of course, in a better margin for the company, but also in a better position on the market, which means that it helps them either to keep the volume and compensate the decrease of the volume, either in many cases, it allows them better sales, due to a better competitive positioning. What we see, not only on a short-term basis, but on a medium-term basis, is that the company, we have worked with them and we have improved their competitiveness, now have a better position on the market and have been able to mold and compensate their internal labor reduction than without this action.

Ernest Nicastro: Good, thank you.

Executive: Sorry, I got disconnected. Did you speak about that project, Executive?

Executive: I was just explaining, reminding that our key business is not only cost reduction, but improvement of competitiveness, which means that the competitive advantage compensates by increasing the volume, the decrease of unit consumption in internal level, for example, so at the end, it's a benefit. It's not like reducing the number of people to adapt the structure. In this case, it's just pure – it doesn't change the product. Here we change the product, we make it more attractive and for a lower cost, which obviously changes the situation. When you have a company who is able to reduce his direct cost by at least 10, and in many cases, 20 or 30 percent, you imagine that it changes significantly their competitive position. It gives them some room from another in sometimes having lower prices, or it allows them to propose some new feature with the same price. So at the end, of course, it's an advantage and it compensates the loss of internal labor time, which is sometimes, yes, they consider as a risk in our action, but at the end, it's not the case.

Executive: Yes, I think you told me that, for instance, about the project that without our intervention, the company probably would not exist anymore. So you see, in some cases, we really save jobs.

Ernest Nicastro: That's good. Moving along – any real-world examples of how your work may have turned things around, and I have: a: Declining margins due to increased raw material prices and b. and c. Can you think of some examples that would address those points?

Executive: Yes, for instance, for the first one, declining margins due to increased raw material – an example can be working on alternators or electrical motors. In that case, the project can be about improving the performance of the product. We don't necessarily increase the material content or improving the performance and at the same time, maybe decreasing the material content.

Executive: For example, in electrical motors, a significant part of the cost comes from the copper itself. This is typically a material for which there are very strong variations and very strong increase. So, you see, by improving the efficiency of the motor, if you need the same power at the end, and if you are able to improve the design to minimize, to reduce the material consumption in copper and in the main elements which are affected by this cost increase, we are more than able to compensate that increase and then have a product at the same price, just by having less material, even if it's a higher price. It's a very common practice. You know, the origin, the reason that the company asks us to help them is to say, "Oh, we see that the cost of the material is increasing. We are not able to explain to our customers that we will increase our prices. What can we do?" So we have to find some leverages to change the balance.

Ernest Nicastro: Sure. Makes sense.

Executive: Sometimes it's also due to the fact that they are using a too specific material on which there is insufficient competition. In such cases, we try to find a more common source to be able to have more competition by also slightly changing the design, where applicable, or changing the process.

Ernest Nicastro: How about where you may have helped in a loss of market share to new competitors with lower prices?

Executive: An example for that one is the project about the bathtub. Was it you, Executive, on the project of the bathtub? [Yes] Can you give a couple of examples of what we did?

Executive: The company was specialized in forming bathtubs, but they were faced with the competition – it was consuming a lot of labor and they were in competition with nearly similar products coming from low-level cost countries. So, they had a specific process, which normally should give them a competitive advantage in terms of labor consumption, but in fact, they were not able to use sufficiently that specific technology and they were able to add some additional devices, which was penalizing the entire cost. So what we did is we came back to the origin of that specific technology, which was patented, and we improved the strength of the material and then we were able to remove all these additional features which were time consuming. So, now, the result is that there is a very limited amount of labor in the production of this product and even if the labor cost is higher, the other product coming from low-level cost countries, are penalized as it is large volume product, nearly empty. When you consider a bathtub, when you transport it, you transport more air than material, so it's clearly penalizing the product coming from long-distance countries. And the fact that they were able to product locally but with low-labor content was the reason to first, stop the decrease of their sales, and now they are the only company in France, at least, and possibly in Europe, to continue producing locally these kinds of products.

Ernest Nicastro: What about shortened product life-cycles due to cost pressure. Anything on that?

Executive: Yes. For instance the case of the project we did with RCA, Art Thompson, it was about – you know the Direct TV recorder that maybe you have at your place? In the case, they were facing

pressure from competitors on the cost, so they had to anticipate the launch of the next generation. So our project was really about taking advantage (you know, it's very quick in electronics) so taking advantage of some features that are now integrating in the new generation of the processor and get rid of some additional ?? that were doing some of those functions that were now integrated. So, yes, they had to anticipate the redesign, but that allowed them to have a competitive advantage compared to the competition. That's also something that we find many times when you speak about household appliances; always the pressure to renovate and try to keep the market share in that field. Actually, we spoke about loss of market share? Some projects can be about gain of market share, if you gain the competitive advantage, and the Inflight Entertainment project was definitely about gain of market share.

Executive: There were, at the beginning when we started, they had approximately 5 percent of market share, and now they have from 40 to 45 percent (Inflight Entertainment).

Ernest Nicastro: The next question was actually just defining an acronym – LCC. Is that Life-Cycle Costing?

Executive: Actually in that sense, it's about Low-Cost Countries and I think that now they generally speak more about SOC – Sourcing Opportunity Countries.

Executive: Or LLCC – Low-Labor Cost Countries.

Ernest Nicastro: Okay, just trying to understand the acronyms!

Executive: But you're right, we also work sometimes on life-cycle costs in our approach when we, on some projects, the way to think for investment for example, is not only to think about the investment itself, but it's also to consider what would be the impact on the operational costs. In this case, the way to compare resolution is the life-cycle cost. But that's something different.

Ernest Nicastro: Your success fee. What is the percentage range for your success fee and what determines this number? How much of it is contingency? How much of it is ...?

Executive: Yes, I would say in terms of a percentage, it can go from 0, if it's just fixed fee, to 80 percent. It really depends on what the amount of savings we estimate can be achieved, the complexity of the project, how many people will have to be involved for the project. It's also about the risk that we need to take for the project. In some cases, the client appreciates, of course, these extra fees, because he ends up paying more only if he gets more savings. So it's the typical win-win situation.

Ernest Nicastro: So 0 to 80 percent. Next question was another acronym question: CAPEX stands for "capital expenditure," right? [yes]

Executive: You asked also the way we mention this 0 to 80 percent but we can speak also about the total amount of our fees. The way we size a project depends clearly on the stakes and on the effort we need. In all cases, what we do is we build some preliminary business case to appraise what will be the project ability for the company comparing the savings they will get and the total amount of fees and additional expenses they will have internally to make it clearly, very quickly, profitable. In this total amount of fees, depending on what the customer requires that we take more of the risk or we take limited risk. In this case, we change the provocation? Between fixed and variable fees. With customers, with clients with whom we are working for a long time, they usually prefer that we work on a fixed basis, because they have some experience where it costs them sometimes a lot due to the fact that they ask for variable

fees, but due to very good results, in some cases, they finally consider that, “Oh, we should have preferred the fixed solution.”

Ernest Nicastro: Right, cheaper for them.

Executive: Because of course, if we take more risk, we need an incentive. It’s something we were able to discuss. If we take more risk, more on our side, then we consider ... but usually we don’t accept to have 0 fixed fees, just due to the fact that when it’s considered as “free” by our clients, it does not push them to put sufficient resources and to put sufficient effort. It’s too easy to take the decision – “it’s no cost, we do it” but then, as we need to work with the people and not alone, it’s very important that there is a contribution from the company, that there is a real decision.

Executive: And of course, as you increase the percentage of success fees, as you were saying, you also increase the total amount of fees. We can propose, I don’t know, half a million dollars of fixed fees, if they prefer to have a part of success fees, maybe it will be \$250,000 fixed and \$400,000 success. The total fees if the success fees increase as well.

Ernest Nicastro: That makes sense. Your highly trained and experienced specialists, that’s what we talked about earlier, right? The engineers and ... if there’s anything else you can think to add to that that’s fine, or you can email me anything, background, expertise, experience, training, technical qualifications.

Executive: I think I can probably send you some resumes of some of our people.

Ernest Nicastro: Yeah, that would help to just give me an idea. We don’t need to go into any detail on that now if you’ve got two or three; that would be fine.

So, how many, over the time you’ve been in business, and this is just a number I’m looking for that can mean, that can add something specific to what we right up but how many companies would you estimate you’ve helped, you’ve worked with?

Executive: We were thinking about that. I would say more than 100 companies, definitely. I don’t have, of course, an exact number ...

Executive: Between 100 and 200, because we’re working also with very large groups, so depending on the size we consider them as unique clients, whether we consider that each of their different activities is a specific client, it changes completely the situation. We have in our portfolio of clients some of the leaders and their activities, such as ?, we mentioned Snider, we mentioned Inergy, etc. The number of clients ... when we work with smaller companies, of course in this case, we have a much lower number of projects with them. Sometimes it’s only one or two projects because we solved their problem together, not alone, with them, and after that there is no need for additional assistance.

Executive: But a very important point about our clients is that about 60 percent of our revenues come from companies that have been clients of ___ for more than five years. Keep in mind that 60 percent of our revenues are clients that have been clients for a long time.

Ernest Nicastro: So 60 percent of the revenues come from repeat business. That’s a good point.

Executive: Yes.

Ernest Nicastro: Speaking of the contingency fees, primarily, any ballpark idea of how many of the dollar value of contingency benefits you've delivered over your lifetime?

Executive: You mean the savings? As a ballpark number, we were thinking about \$25 billion.

Executive: Over the last 25 years. Of course, in many cases, it's recurrent savings, not only for one year, it's for the lifetime of the considered product. Of course, when it's an investment, it's only one shot, but as an average, we can consider. We didn't take the calculation, we most considered what is the ratio between what we invoice and what we save, and based on this, we recalculated approximately this amount. It might be even more.

Executive: Of course, so we do the project and generally our fees are probably based on the first one or three of production of the product, but maybe they will be selling it for five years or ten years. So if you add up the savings ...

Ernest Nicastro: We don't need to go into detail on that; I was just looking for a number you might be comfortable with if we chose to throw out a number. How many different industries would you say you've worked in, and the second part of that is, where do you have the deepest experience in expertise?

Executive: I will say, all industries, it's probably the easier answer! I can list some of the different industries we have worked in so definitely electrical and power distribution, energy generation, telecommunication, consumer electronics, household appliances, aeronautics, aerospace, defense, automotive, heavy industry such as cranes and lifters, civil works for the investment part, transport – for instance, railways, and we spoke about Alston already, petrol industry and chemical as well, and then everything that is related to processes like metal production and plastic ?, molding, forming. We've worked in the cosmetic industry as well, medical, definitely, sanitary equipment – we spoke about the bathtub, water closets – and I don't know if the term exists – demotique – or automation, typically electronic control like for the house, surveyance and control, control of the climatization – temperature control, sports industry, furniture, marine industry. If we say all industries, it's not far away from the truth!

Ernest Nicastro: Probably 25 to 30 different industries. It appears, from looking at your material, that you've got quite a bit of experience and expertise in automotive and electronic-related industries. Is that correct?

Executive: Yes, as an average during the last year, it could be about 30 percent of our activity, roughly.

Ernest Nicastro: As far as the categories of your business that have generated the most revenue for you, how would you rank them? I had the four areas that you list in your materials and on your website – reducing cost of existing products, designing the cost of new products, reducing purchase costs, optimizing investments – how would you rank those in terms of revenue-producers for you?

Executive: I would say, first of all, in several cases, it's a mix of some of these that we have on project, in many cases, purchasing costs with both reducing costs of the existing product and also the design cost of a new product. If we have to put some percentages, I will say probably 30 percent for existing products and 30 percent as well for design of new products, and probably 20 percent purchasing cost reduction and 20 percent investment cost reduction.

Ernest Nicastro: Okay. What do you all feel are the (I have three) but what do you all feel are the three biggest challenges you have to address or overcome in telling your story?

Executive: Probably the first one is to be able to convince them that they don't have already internally the same capability that we offer. Most of the time it's "We do that already. People internally are already working on cost reduction." So that's a big challenge. Another challenge is getting the prospect to believe in the results we speak about – 10, 15, 30 percent cost reduction – and in the added value that we really bring to the client. There's also a difficulty, especially here in the States, to communicate that we are not just a basic consulting company trying to sell some software and a licensing fees that are associated. In some cases, we meet the prospect, "Okay, which piece of software do you sell?" And yes, we have _____, but it is not our main focus to sell a piece of software. It's really to have our people working with their experts to achieve the results. Then, of course, another challenge is that we are not IBM. If you come in and say, "We're IBM," then of course they'll listen to you. We need to establish our name, our presence, and to explain that it makes sense to do business with us. Another challenge that's been also exacerbated by the economic situation and the layoff of people is that in certain cases they think there's an opportunity to do business together; it makes sense what we speak about, but they simply are worried about having internally the resources required to work with us. Those are the main challenges that I can identify.

Ernest Nicastro: They're concerned that they don't have the resources internally to work with you.

Executive: Yes. Because as we said, we don't just come in with 15 consultants and we do the job at their place. We need to have a team with their people working with us every week, maybe a couple of hours, maybe a couple of days at the beginning of the project, but we need their people to have time to work with us. In some cases, they consider, "They're already working on this and now they need to work with you on this other thing?" No, they need to understand that they'll be working on the same thing improving the profitability of the product they're designing, but in a more efficient way, thanks to our coaching.

Ernest Nicastro: Very good. The specific details that make up various components of your work – to any extent you can speak to the details of No. 19? I have there cost analysis, your creativity sessions, supplier workshops – if you can give me some idea of what those components involve. You don't have to go into explicit detail, but just some general overview of what those involve.

Executive: Executive, do you want to explain a little on the cost analysis?

Executive: The way we work is not to try to identify the maximum number of ideas that could affect the cost and then appraise what could be the saving and then choose the best one. The approach is to start by, I will take an example, when you see a doctor, okay, you suffer from something, it's much more efficient to know what are you suffering from, what are the symptoms you have, and then based on this understanding, to see what is the appropriate treatment. So what we do with cost is the same approach. We start understanding the cost and then, after having understanding what makes the mechanism of the cost, we try to address the most relevant leverages. So that, clearly, is a starting point. It could be a functional approach – to make a cost breakdown, depending on the different functions of the product; it could be understanding whether the cost is coming from monopolistic situation of some supplier; specific requirements. So we analyze the cost; we analyze what are all these cost drivers, and what is the keypoint, what could make the cost change? After that, having understood this, we try to identify what are the solutions we can implement that will really make these drivers change.

Ernest Nicastro: Good.

Executive: And then, for the creativity sessions, it's really, as we said, working with the team ...

Ernest Nicastro: Like brainstorming with the team?

Executive: Yes, it's brainstorming with the team, but I think what is specific that, as we mentioned, we have experience coming from many different industries, our support is not only to facilitate this brainstorming session, it's also to provide some examples coming from fully different words that help people to think differently and imagine new solutions.

Executive: Brainstorming is more similar to throwing a bunch of stupid ideas on the wall. Creative session is really guided by this understanding of cost, coming from the cost analysis. It's more focused and it allows us to optimize the time and resources. Finally, supplier workshops – it means, in some cases, our client is buying components or assembled systems from a supplier. The supplier knows where the cost is coming from, so it's important to work with the supplier. You see, it's not just pushing them to reduce their price, it's really to work with them, having side by side ourselves, the purchasing guides from the client, the engineering guides from the client and the supplier, to say, "Why is this part really expensive?" "Oh, because we have this specific process." "Okay." "Engineer, do we really need it? Can we improve it?" It's working together to facilitate the supplier's life and of course, seeing the benefit of the price.

Executive: You see, in most cases, about 80 percent of the direct cost comes from purchases in the product on which we work, and in most cases, when a purchaser wants to know about price, he just asks some suppliers for a quotation; he does not have, in most cases, what is the real cost. He speaks about price; he doesn't think about cost. So, the knowledge about what will affect the cost is then not internal knowledge, it's the knowledge which is at the supplier. So by working with the supplier, by explaining about the end – what we will do, we will improve our work competitiveness, we will sell more products, so it's their interest to find with us more competitive solutions and to other costs, we explain that we need to understand what makes their cost. We don't want to play on their margin, but we want to play on their cost. We need to share some information about their real cost, their real cost driver, to be able to address them and adapt a design so as not to penalize those costs. So it's really key to organize, and we work as facilitator between the clients and the suppliers to facilitate understanding that it will be really a win-win exercise.

Ernest Nicastro: Right, you help the supplier reduce their costs.

Executive: But, as usual, the company who designed the product does not know exactly what will be the influence on this factor on the cost of the product; they are not able to guide the design. So by working with the supplier this way, and by sharing this cost information, of course we facilitate a cost-effective design.

Ernest Nicastro: Right. To get an overview on this project you worked on with the sliding cabinet door manufacturer, some of the things I took from the trio – there was a drastic reduction of overall pack volumes by changing the design and arrangement, 50 percent on packaging and transport costs. Any details you can provide me with on that or that aspect?

Executive: The initial situation – you know when you usually pack a product, you first design a product and after that you consider what you need to put around to protect it. That's the standard approach. In this case, what we saw is that the packaging and transportation costs were representing more than 20 percent of the total cost of the delivered product. So, based on this, as it was kits that were delivered, we started from this cost to ?? it, and we can reduce the volume of the product by interlacing some components so that we don't transport air. We transport only the product itself. When we were

comparing the total volume of what we were transporting and the volume of material itself, we had a ratio of three at the origin, and even more than three, considering the additional protection on the edge – between three and four. So based on this analysis, we changed the design, we adapted the design of the different component. It was a complete redesign, so that we were able to put the element on the side and not between the main plates, and based on this, we have been able to first reduce the overall volume of the product itself, and after that, we worked on the packing solution to change the way to protect and find thinner protection, but anyway, not reducing the cost but reducing the volume, and then being able to have a much more thinner total volume for the product. The fact is that it was for the consumer industry, such as a very large store where the volume surface which is taken by the product is a limiting factor, that they don't allow you when you want to work with them, to use too large a surface, so the fact that we were able to have smaller volume and then to present more products, more available products in the same surface occupied by this product ?, was also of significant advantage in convincing the client to work with that customer.

Ernest Nicastro: Why is you feel that the company was able to achieve these results with your help when they weren't able to do it internally, without your help? How would you answer that?

Executive: I would think, the same example. The situation was that nearly all competitors were proposing the same solution, so they considered that there was no evident way to change the situation. So what we wrote was to have, I would say, a new eye? on this subject – start from the cost and not start form the solution, start from understanding what was penalizing the cost and not just saying all competitors do the same, so we can't change. Go back to the function of the product and then facilitate the redesign, reinvent some new items, and we were even able, on that product, which is a simple, common product, to patent a simple device that was also improving the way the product was working. Our help, our added value, is to change the mind. And even the competition is doing the same. There are always some ways to improve.

Executive: You see, it's a common thing to be said, there's a lot of copy and paste in engineering, but still, they do a new product but they copy a lot of things from the previous one. While, if you take the time to do a quick functional analysis and really understand what you need to achieve certain functions, then you can really do a new product and redesign the cost.

Executive: Which is our two factors: you can't really design cost-effective products without knowing about costs, one factor. And the second, we are acting as coach, as Executive mentioned previously, and you would not imagine a football team, for example, without a coach. Obviously, the coach doesn't play the game, but the coach helps brings further and obtaining better results.

Ernest Nicastro: That's good, thank you. How many different tier one automotive suppliers you've estimated that you've worked with?

Executive: I hope that we come back to that question 21 that you skipped! I will say it's around 12. Our count is 10, probably missing some.

Executive: In most cases, some of them are major in their field.

Executive: Right, really speaking about the major tier one suppliers – about 12.

Ernest Nicastro: As far as examples of looking for breakthrough and increase differentiation – anything you want to speak to on that is great.

Executive: We have a very nice example that speaks to everybody for internal breakthrough. If you think about ski boots, the boots you use to ski? ___ worked with Solomon, who is the leader in the business, to design the first plastic ski boots, compared to leather boots, before. So, of course it was many years ago, but that was really a breakthrough. Of course, the focus was not necessarily cost reduction but there was a lot of improvement, added value for the client, additional functions, so that's clearly an example that everybody can understand.

Ernest Nicastro: That also speaks to increased differentiation; it's not a leather boot, it's a plastic boot!

Executive: And consider that it's really an increase of margin, in that case, clearly, but not cost reduction. Plastic with molding ... you could consider that it was less expensive than leather plus additional on the operation, etc., of course. But clearly, the product they were able to produce were much more efficient in terms of water tightness, it was much easier to put on and remove, it was less subject to deterioration, it was much more adapted in terms of the way of fitting the foot to the ski, and facilitate orientation of the ski and obtain better results. So, it's a complete innovation in that case, and not only cost reduction, due to the cost that leather was too expensive was not at all the approach, and the product was sold at a much higher price than the leather shoes, but also produced at a lower cost.

Executive: And nowadays you would never imagine to go skiing without plastic boots!

Executive: Probably with leather, you will forget!

Executive: In terms of innovation, you probably know about TCB, the high-speed train back in France? We are working with the new generation of high-speed trains with the world-wide leader in that.

Executive: This is the reason we took one, not recent at all, the ski boot was something very old, but it also gives you an idea of the duration of our experience. It's not a young company and yes, we also have some new references such as this product which is just on development.

Ernest Nicastro: I don't know if you have any number for 23, the value of the savings enhancements you've delivered to the tier one automotive suppliers?

Executive: We can consider that, well, if you exclude the last year, automotive on average represents about 30 percent of our business, so that gives you an idea.

Ernest Nicastro: The no-cost preliminary diagnostic review – overview on what that entails?

Executive: That means that once we have defined a certain scope, a certain subject, a certain product on which the client wants us to work, we spend maybe one or two days at the client, interviewing the main people responsible for the product, so spending time with the lead engineer, purchasing representative, marketing, finance, and also with management, to really understand what we're trying to achieve. We mainly ... cost information, some material, volumes, maybe some marketing features that they're trying to add or trying to understand, if they're really necessary, and that gives us enough information to assess the situation so that two or three weeks later we can come back with our commercial proposal where we define the scope, what the company is trying to achieve. We give an idea of where we think their opportunities for cost reduction and we give also an idea of the timeframe for the project and the resources that will be required on our and their sides. So the diagnostic is really, most of the time, is free; it's no cost to the client. It's to give us an overview of the information available and do a preliminary assessment which allows us to put together a commercial proposal.

Ernest Nicastro: On average, how many hours would you say go into that?

Executive: At the client?

Ernest Nicastro: How many hours on average go into developing this diagnostic review, on your part?

Executive: We generally spend one or two days at the client interviewing the people. Of course, on their side, they need to put together some information, but it's generally information they have already available; it's just about printing some stuff, showing us PowerPoint slides about the product and all that.

Executive: On our side, after these two days usually with, many cases, two people on our side, we spend about three more days to build the proposal because as we accept some variable fees, in some cases, and even when it's fixed fees, we have to propose something that is adapted to the real situation. We don't have a standard approach that we just implement; we have to adapt our approach to size it, depending on the stake, and then that's what takes some time. Also, we take some time to try to, not give a solution, sometimes we have some ideas of what can be the solution, but we can't give these ideas for free to the customer! Anyway, we need to find ways to give sufficient confidence to the client, to show him that, yes, we have some ideas, at least, on how to address the subject, and where we imagine we will find the savings.

Executive: After the diagnostic, and also after the commercial proposal that we present, the client in general doesn't pay anything. So, it's just us again to assess the situation and present the proposal, spending time to put the proposal together. But of course, we want to interest the prospect to doing the project but without saying too much so he can just go ahead and implement by himself.

Executive: But anyway giving confidence in the feasibility of the project.

Ernest Nicastro: Something else here I pulled from some of your material: Select and prioritize based on EPA (Energy, Profitability, Adhesion) ranking ... anything you can explain or talk about with regard to that?

Executive: Yeah, it's really, of course, it happens sometimes that you start a project and actually the client they have already a huge list of ideas: "We can do this, we can change that?" And then you say how much you can save with that and you check the Excel file and there's no figure in front of that. So it's important to evaluate what each idea has the potential to save, and it's important to rank these ideas based on the required internal resources vs. the projected savings, so you can then focus, of course, on those that are most profitable but also feasible, based on the available resources. And the adhesion criteria, it's important as well because maybe it's a big idea with big savings, but if most of the real people in the client that we need to redesign the part or negotiate, if those people don't believe in the idea, they consider that it's not going to work, then it will be tough to push it forward. So that's about the adhesion criteria.

Executive: You know, it's rather easy to organize a creativity session and find many ideas. It's easy. People propose, when you start, imagining new solutions. It's easy, at the end, to have a long list of ideas. The difficulty after that is to implement and to implement, you appraise the savings, you appraise the corresponding investment, and you just first select the ones which are profitable. But it's not sufficient because in most cases, the internal resources to implement things are limited. Then you have to consider what would be the most efficient solution in terms of concentration of internal resources compared to the savings they will achieve. This is one factor. Then after that you have to consider that if you want people

to really work on it and be successful, they need to have sufficient adhesion, they need to have sufficient confidence in the fact that yes, it should work, there's a good chance it will work. Otherwise, they will not really work on it if it's just considered ideas coming from the ?? but on which no one really believes, it will not be a good idea to work on. It will never be implemented.

Ernest Nicastro: You need to get them to buy in and believe in it. You provide efficient tools for monitoring, so my question was, what are your most important and valuable tools?

Executive: I would say, there's something we call a core carb, which is basically a file where each idea is very well defined and described with the actions that it takes to implement it. It's important to have, of course, a responsible person for the actions, and it's important to have in front of each idea the potential amount of savings, as I was saying before. This allows also to promote accountability across the people of the team and the intervarsity adhesion criteria. If you have just some ideas but people don't realize how much money they're leaving on the table if that doesn't happen, there can be less accountability. But if you say, if I delay this, we are losing - \$100,000 per month because we are delaying the final product, well, that helps to keep the momentum on the project. It's nothing very complicated or complex that the client would take weeks to understand or to use. It can be simple Excel files, idea database with an action plan, very simple tools, but to keep track of the project and the savings and to push toward implementation.

Executive: We have different types of clients. Some of them you put an idea on the table and they have their internal process to implement it. That's in some companies, in the automotive industries, that's the case because they are really focused on productivity and okay, as soon as you have an idea which is considered, yes, it goes. But we have also some customers who are afraid about how to treat, select, organize these ideas. So in this case, we are a road to propose a simple tool, a simple approach, to have good tracking of the different ideas, to facilitate selection of the ideas, to facilitate follow-up of the ideas. When there is no existing tool, procedure internally, we bring up our own approach and if there is something existing but not really adapted, then we improve the internal tools which are in place. That's all.

Ernest Nicastro: You optimize human resources by quickly focusing on the most rewarding topics. Can you speak to that briefly?

Executive: Yes, it's really about, you remember we said we didn't start with the cost understanding of the product? It can be a quick function analysis, and that allows us to, as Executive would say, not to go and look under each rock but really to see very quickly upfront where most of the opportunities are, the most rewarding pockets are, and then to focus the people there. So it allows us to work with our resources, but also the people in the team as well. Not to ignore a small opportunity that can exist, but just to focus on the big ones.

Executive: And also the prioritization process helps in focusing on the key items.

Executive: Yes, the most rewarding.

Executive: I would add a third factor that usually we work based on weekly sessions. So the fact that the ?? comes every week, one or two days, with the team, gives a real reason to the project. We don't just leave the project, go without pushing and repushing any action, and then let the time go without a decision. So this very close weekly follow-up and the organization of a steering committee with people who could take the decision, facilitates an efficient process.

Executive: Yes, that's a very good point, the fact that we don't just say, okay, you should do this, go research that, and go redesign this, and leave with some PowerPoints of ideas for them to implement. We are there at the client, we travel a lot, we stay with them, we do weekly meetings, so that if something is not moving forward, we ask why, what can we do to make it work, can we imagine a different solution? It's really our hands on approach to be sure that it's not just the opportunities, but they're really transforming into actually savings implemented. And of course, we are interested in pushing on that because of our success fees, as well. We want the savings to be achieved.

Ernest Nicastro: Yes, you're not going to do anybody any good if they don't follow through and implement what it is that you've determined will help them achieve the savings or the competitive advantage. Good. Finally, one of your materials said, build an internal legacy with the client, a new set of skills essential to sustain competitiveness.

I take it this means that you're leaving them with a "new process" or "roadmap" that they'll be able to follow in the future to duplicate the results you helped them achieve. Am I understanding that correctly?

Executive: Yes, it's about that, but even without speaking necessarily about a new road map or a new process, I would say that, even though it's not formal training, that simply once we leave, the engineer that's been working with the team, or the purchasing guy that's been working with the team, they will have a different approach when they go and engineer a new part or the purchasing guy meets the supplier and needs to negotiate on a new buy. It's not a formal training, but they pick up bits of improvement for their everyday work.

Executive: If they see you starting from the cost to address the cost problem, when they see the same situation, they will have the idea, "Why not to have a first to analyze the cost, for you to analyze the technical solution." When they discuss with the supplier, if they have an understanding with them that it's better to first understand what makes the cost before starting the negotiation, they will try to implement the same process the next time.

Ernest Nicastro: Okay, good. Anything that we haven't talked about that we should talk about?

Executive: I don't think so, but on my side, what we would clearly appreciate is to have some critical ideas from your side to see what are the most convincing items, the ones which are the most relevant. We explained that our added value with our words, with our experience, but we need to find a message which corresponds exactly to what the clients need and what the clients would consider as a real advantage. Sometimes if it's not exactly what we explained is not exactly their concern, we would like to take advantage of your experience in communication not only to repeat a better way the sentences we use, but to find what are the most appropriate arguments to use.

Ernest Nicastro: That's what I'm here for. And in listening to you, the main things that have come out, and I've thought this from looking at your material, but your focus on one particular segment – direct cost reduction and increasing the competitiveness of the client's business and the fact that anywhere up to 80 percent of your fee can be on a contingent basis. Now, that depends on the situation that you find but that's just some initial thoughts I've had. I will listen to this and get it written up and I'll be back in touch with by email by Monday at the very latest, Executive.

Executive: And of course the objective here is to develop a new material with a stock message and also, did you have the time to look at the brochure I sent you? What did you think about that kind of documents, which were done quickly, they were preliminary but what was your reaction?

Ernest Nicastro: I think Jim might have showed me this before. It's a good document and it's a good start. Some of the slides are really, really busy, but overall it's a pretty good piece. Your examples, showing the reduction – showing 15 percent, 17 percent, reverse engineering – a lot of it is very bullet-point oriented and you might want some narrative elements as well.

Executive: So it's good to have the concrete examples but maybe it would be good to have some story around it?

Ernest Nicastro: Right, put a narrative with it. There's a lot of good material in it, but to have a document that someone can read or at least scan through, to feel like they're getting a good feel for the company and what they stand for and what they're all about and what their focus is.

Executive: I think you're able to get at least a preliminary feeling about the company and what we do and all that. In terms of interviewing other people, I don't know what you think, I think you have already some good information?

Ernest Nicastro: Yes, this is great information we got today to get started. If there are people internally that you feel could speak to some of the questions, they can key in the answers or email the answers too, like you did.

Executive: Executive, do you think that some other people at ICA might add something more?

Executive: Of course, but I think there might be first a need for selecting what are the key arguments, you may have already sufficient material to start working. After that, if you need to have possibly a different point of view, different arguments, or check the validity of some argument, yes it is possible to organize additional discussion, for sure. We may not have – all of our consultants may not have obviously the same perception of what are our strengths and what are our arguments, but yes, it could be useful. There is also something which is one of the most experienced guy in the company who could give you additional information and different points of view, but doesn't really speak English – I'm not perfect in English, but I can speak anyway! So, in this case, it could be useful to have a discussion with ??? but you will need to probably translate to facilitate a common understanding.

Ernest Nicastro: I think this will cover most of it. You have the questions in email form and invite anyone you want to help to answer or key in any answers in email form – in English, unfortunately! I thank you gentlemen, and you particularly, Executive, for your time, and I'll be back in touch with you Executive no later than Monday.

Executive: Yes, I think the idea is also for you to do some quick interview with maybe a couple of our past or current clients?

Ernest Nicastro: If you could set that up and they were willing to take 15 or 20 minutes, I'd be happy to do that, yes.

Executive: I will call you again to discuss which you think may be best to interview and we will organize that.

Ernest Nicastro: In English!