



FOCUS ON: Competitive Cost Transformation

Message from Tom Pettit

Vice President,
Competitive Cost Transformation (CCT)

Competitive Cost Transformation (CCT) is one of three key ADC priorities for fiscal year 2007 (FY07), and it is already transforming our company and improving our customers' experience through advances in speed, simplicity, smart customization and cost.

As Bob Switz, President and Chief Executive Officer; Pat O'Brien, President, Global Connectivity Solutions; and your ADC colleagues shared with you during the March 2 ADC Town Hall, we are making solid progress on CCT. Employees around the world are:

- Improving customers' simplicity through our leading products that contain our best technology and shortest lead times;
- Transforming engineering and operations processes from slower, higher-cost "engineer-to-order" processes to "configure-to-order" processes with "smart customization";
- Gaining cost efficiencies and faster delivery times through strategic sourcing and global spending consolidation; and
- Creating ADC wins for our customers, our shareowners and you.

To share with you the impact that you and your colleagues are having for our customers and ADC, I'm pleased to highlight several more success stories through this edition of *Insights*. In each article, you will learn how your colleagues are collaborating with customers, co-workers and suppliers to find innovative solutions to drive speed, simplicity, smart customization and cost. As FY07 progresses, I'll share more stories about our CCT progress that continue to exhibit meeting commitments to our customers, employees and shareowners.

Customer Feedback Prompts CopperTen Redesign

“Our customers, distribution partners, Value-Added Resellers (VAR) partners and consultants are excited by enhancements made to our CopperTen cabling.”

This January, ADC launched our size-reduced CopperTen Augmented Category 6 Unshielded Twisted Pair (UTP) cable at the 2007 BICSI Conference in Orlando, Florida, where more than 5,000 event attendees were introduced to our redesigned product. Since its launch, customers have responded positively to CopperTen’s redesign effort, said Damon DeBenedictis, Senior Product Manager for CopperTen at our Greenwood, Colorado office. But market reaction to a 10 Gigabit UTP cable’s design has not always been positive.

“The need for size reduction was a direct result of negative market feedback on the overall size of 10 Gigabit UTP cables,” said Spring Stutzman, Senior Product Engineer at our Sidney, Nebraska manufacturing facility. This negative feedback, she explained, is what led to a Competitive Cost Transformation project that reduced the cable’s cross-sectional size by 22 percent, produced a 15 percent cost reduction in its production and improved our direct gross margins on CopperTen by 25 percent.

Damon said, “Size and cost are two selling points for UTP cable over Foiled Twisted Pair (FTP) cable for a 10 Gigabit application. If UTP cables are bigger than FTP cables, the size selling point is lost.” Before the redesign effort, CopperTen was larger than the industry average outside diameter of .285 inches for most F/UTP and .310 inches for UTP cables. Now our CopperTen cable’s overall diameter measures .275 inches.

Aside from conduit size, Spring said that CopperTen’s larger cable diameter increases fill rates, or the amount of cables that you can put into a conduit, in cable trays, conduits and raceways. The larger the cable is, the larger trays, conduits, etc., need to be made, thus increasing the cost of a project. With the size-reduced CopperTen, the fill rates are improved, installation costs have been reduced and air flows better for improved data center cooling, reliability and uptime.

The Product Management team was the first to listen to the market’s feedback and set the redesign effort in motion. The team started an engineering project and began working with our suppliers to solicit ideas on how we could reduce the size of CopperTen cable.

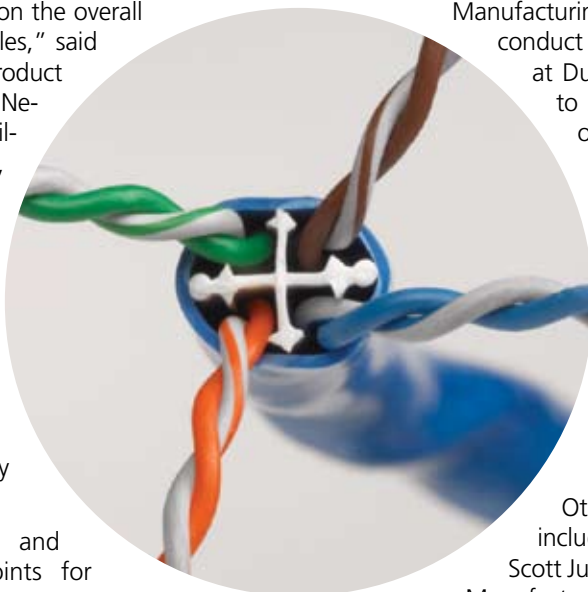
“One of the biggest challenges with cable that is required to run a 10 Gigabit application is expanding the alien crosstalk requirement, or the electromagnetic interference that comes from a twisted pair in an adjacent cable, and we were already at our capacity based on the material we were using to produce CopperTen,” said Damon. “The only way we could reduce the cable size was to use alternative materials.”

DuPont, our fluorinated ethylene propylene (FEP) resin supplier, was developing a new FEP foam resin that was harder and more durable than FEP foam available in the marketplace. Sidney, Nebraska’s Manufacturing Engineering team worked jointly with DuPont to conduct testing of its FEP foam. Following successful testing at DuPont’s lab and our Sidney facility, the team decided to incorporate foaming — a process that decreases the overall dielectric, or electrical insulator, of a material — into the production of CopperTen cables.

“Through foaming, we were able to expand beyond our original design constraints,” said Damon.

Spring said foaming is one of many CopperTen enhancements that have proven effective. “Our customers, distribution partners, VAR partners and consultants are excited by enhancements made to our CopperTen cabling. We have seen an increase in customer activity and hope to an up tick in sales mid-summer.”

Other key team members who worked on this project include: Fred Johnston, Technical Engineering Specialist; Scott Juengst; Manufacturing Engineer; and David Wiekhorst, Manufacturing Engineer Manager; all based in Sidney, Nebraska.



Four team members who helped reduce the size of our CopperTen cable include (left to right) Dave Wiekhorst, Scott Juengst, Fred Johnston and Spring Stutzman.



Consolidation through Collaboration

In late 2005, ADC began a joint project with Verizon, a key customer, to consolidate shipments it received from our company. At the time, Verizon was receiving multiple shipments per day from ADC and wanted to combine all deliveries into one shipment, resulting in an internal analysis of ADC's SAP system.

"Verizon contacted ADC after identifying a need to merge multiple shipments they received from us," said Tim Speidel, Project Engineer at our World Headquarters in Eden Prairie, Minnesota. "This project helped us understand the need to improve our shipment processing functionality through SAP."

So began a quest to consolidate ADC shipments from Santa Teresa, New Mexico distribution center to our Berlin, Germany and Brno, Czech Republic facilities. The team started by reviewing Analyzer data to determine how to replicate the results of our efforts with Verizon and join our internal shipments within ADC's physical network. The data showed multiple deliveries per day.

King Chee, Operations Leader at our Santa Teresa, New Mexico facility, said, "Knowing that carriers, like UPS Supply Chain Solutions (UPS-SCS), move freight on a daily basis, we wanted to pay for only one shipment per day. We were averaging four to five shipments a day that each had set fees associated with them, such as pick up and delivery, customs clearance, etc. Within a two-month period, we had paid for 184 shipments with a minimum cost for shipments less than 50 pounds at approximately \$150. Following the project's end, we're paying approximately \$.70 per pound and saving ADC approximately \$.45 per pound — or \$35 per shipment less than 50 pounds."

The work to consolidate ADC's shipments began in May 2006. The team solicited two carriers, UPS-SCS and Exel, to participate in a three-month trial. UPS-SCS was awarded the contract. Internally, our Information Technology department reviewed SAP's delivery processing and consolidation functionality, but IT and team members found that we alone could not reduce the number of deliveries tracked through SAP. UPS-SCS also needed to manage the process.

"Because SAP could not manage the entire consolidation process, we decided to create a manual process, which is carried out by UPS-SCS and our carriers," Tim said.

"Following the project's end, we're paying approximately \$.70 per pound and saving ADC approximately \$.45 per pound — or \$35 per shipment less than 50 pounds."

Shipments are now merged through two processes: one at ADC and one at UPS-SCS. First, SAP creates a new tracking number each time an ADC shipment is processed through our system. This tracking number is then provided to UPS-SCS, after which a UPS-SCS employee tracks the number manually through a spreadsheet. The spreadsheet is later handed back to ADC for cross-reference checking and tracking purposes. These two processes have resulted in complete consolidation of our shipments.

Tim explained, "We try to keep materials flowing through our warehouses, so we create two deliveries per day. Initially, UPS-SCS took what deliveries we created and consolidated them into one shipment per day. As of October 2006, shipments are consolidated twice per week."

With consolidation realized, we have incurred significant cost savings. For example, in Berlin, Germany, the number of costly shipments less than 600 pounds has been reduced from 90 percent of all ADC deliveries to less than 10 percent. Team members said they continue to explore more ways to consolidate ADC shipments. Their efforts have been replicated within our shipments from Shakopee, Minnesota's facility to Brno, Czech Republic, and the team hopes to migrate from airfreight delivery to more economical ocean freight delivery.

Additional key team members include: King Chee, Operations Leader in Santa Teresa, New Mexico; Curt Olsson, Logistics Administrator in Eden Prairie, Minnesota; Thomas Pfeiffer, EMEA Distribution Center Manager in Berlin, Germany; and Mopsy Slowiak, SAP Analyst in Shakopee, Minnesota.

Global Supply Chain Metamorphosis



One minute remains. The clock ticks down. Four ADC employees intently stare at three computers in an office at our Shakopee, Minnesota manufacturing facility. Connected across thousands of miles of fiber optic cable, six teams of suppliers are also glued to their computers. A large contract to supply fasteners is on the line. Each one of them wants to be the lead bidder and win our contract.

So how are these parties, who are separated by thousands of miles, interacting in a supply-bidding event? One word: e-auction. In mid-December, ADC held our first-ever, self-service e-auction through an e-Sourcing tool. This event saved our company on the price of fabricated sheet metal parts, and since then, more than 25 events have been held — resulting in significant cost savings for ADC.

“The savings we have identified through self-service e-auctions has been surprising,” said LuAnn Kerzman, e-Sourcing Manager in Shakopee who currently oversees all e-auctions held within the Americas. “And the use of this tool has not only offered us cost savings, it has also expanded our breadth of suppliers to choose from and improved the quality and lead-time of commodities supplied to us.”

IMPROVING THE GLOBAL PROCESS

The need for incorporating a more sophisticated supply-chain management tool became a priority for ADC in 2006. Previous to incorporating a self-service e-auction tool — which allows us to control all aspects of the auction and bidding process — we used traditional request for quotations. This process, LuAnn noted, was cumbersome and time consuming. E-auctions have been used within the industry for some time, and ADC was excited to incorporate an e-auction tool into our global supply chain process.

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LuAnn, Dean Schaffer, Senior Purchasing Manager, and the Sourcing team first tested e-auction use through a full-service e-auction quote preparation and event management provider. The event proved financially successful, causing the team to investigate self-service e-auction solutions.

The team selected a robust, web-based e-sourcing tool that requires minimum set-up and training, and that is relatively easy to use for both buyers and suppliers. “The overall e-sourcing implementation and event deployment moved quickly,” said Dean. “Purchasing employees were trained on how to strategically prepare for our first e-auction, and it was conducted within weeks.”

ONLINE BIDDING WARS

ADC follows a multiple-step commodity process, which moves from assessing an opportunity and developing sourcing strategies to awarding a contract. The process also includes selecting and inviting suppliers to participate in an ADC-hosted e-auction. The key throughout the process, though, is communication.

LuAnn said, “Communication between ADC and suppliers is a critical part of the e-auction process. Our commodity managers communicate through ADC drawings, request for proposals, supply agreement language and precise specifications of the parts being bid, including quantities, unit of measure and other bid requirements. For example, if a supplier quotes a single label versus a roll of labels, the bids will be skewed.”

On the day of the e-auction, suppliers have already placed a prebid, giving suppliers a starting point to see how their pricing compares against other bidders. “Each supplier’s goal is to win the e-auction and that includes competitively bidding against one another during the event,” said Jeff Helstrom, Sourcing Manager.

“Each supplier can see the lead bid during an event. Because of this, it’s exciting to watch e-auction activity,” he added. “If a bid is really competitive, the last 30 seconds can be a bit tense for both buyers and suppliers. Suppliers may continue to change their bids, and if this occurs, that lot goes into overtime where all suppliers have a chance to surpass the lead bid.”

INCREASING COMPETITION

In the end, the lowest bid may not win the business. LuAnn said, “There are many total cost variables that go into awarding business to a supplier. Quality, service, lead-time, terms and conditions, payment terms, stocking programs, among others, are all encompassing in the selection process.”

The e-auction is the first phase of many in the negotiation process. Awarding business to a new supplier for a specified part may require extensive and costly qualification activities, which are both weighed against potential savings in deciding what supplier wins our business. And while some companies rely on their long-stand-

ing relationships to continue business with ADC, these relationships are not necessarily sustained in today's current business environment.

"A supplier to ADC for 'X' amount of years now has to bid against its market competitors in order to sustain our supplier relationship," said Jeff. "These suppliers need to become more world competitive on price as well as continue to rely on outstanding quality and lead-time to win our business."

GOING GLOBAL

Two e-auctions have been conducted outside the United States, and in early March, our Sourcing team in Berlin, Germany was trained on how to use the e-sourcing tool in Shakopee. The team in Berlin plans to use this tool in their e-auctions with European suppliers.

The long-term goal is to deploy self-service e-auction use throughout the global supply chain.



Many Americas Sourcing team members helped implement the use of a self-serve e-auction tool within ADC's global supply chain. Three of those employees are seated in our Shakopee, Minnesota manufacturing facility. Left to right: Dan Nelson, LuAnn Kerzman and Greg Jones.

Molding a New ADC

Competitive Cost Transformation (CCT) is transforming the way ADC does business, and one of the areas in which this initiative is transforming our company is within the molding of raw plastics material at our Berkeley Vale, Australia manufacturing facility.

In the beginning of 2006, Wayne Dennes, Product Engineer; and Adam Dyer, Purchasing Manager; identified a need to consolidate ADC's use of raw plastic materials in the molding of products that use the resin, polycarbonate/acrylonitrile-butadiene-styrene (PC/ABS). PC/ABS is a blend of PC and ABS materials and is an industrial thermoplastic that is widely used in telecommunications applications. ADC currently uses PC/ABS within numerous plastic parts for products including RJ45 jacks, surface mount boxes and cable managers.

"We were purchasing two different grades of PC/ABS," said Adam, who first discovered the duplication. "Plastic molding was using both Astaloy, produced by Marplex (a leading Australian plastics supplier) and Cycology, produced by GE Plastics (a division of General Electric)."

His discovery led to a year-long effort to choose between the two grades. Mold trials and testing of the Marplex and GE Plastics PC/ABS blends was conducted, discussions were held between ADC and each



company, as well as other alternative suppliers, and one blend was chosen because of its pricing and functionality.

"We decided to use GE's Cycology C2950HF material within our molding process. GE proved that it has better pricing and processing ability over Marplex's solution," said Wayne. According to the GE Plastics website, its Cycology material combines the ease of processing with low-temperature ductility — the amount that any material yields under shear stress — provides excellent heat and impact resistance, and has outstanding aesthetics.

"Not only was the price right, but the quality (a key value within The ADC Way) was far superior," Wayne added.

This choice to use Cycology in the molding of RJ45 jacks, surface mount boxes and cable managers has saved ADC \$50,000 per year, and it has reduced the raw plastic inventory by \$5,000 and the amount of material numbers managed by the Commodities group.

Adam said, "This has been a great CCT win for ADC and our Berkeley Vale facility. For those employees who are looking to help transform the business, I suggest you always challenge the process and don't always accept the status quo."

The team said an effort is underway working with Scott Blaine, Global Plastics Commodity Manager, to identify future alternative sources for plastics that could lead to further savings for ADC.

Key Relationships Produce Critical Savings

Competitive Cost Transformation (CCT) projects are occurring all across the globe. In Berlin, Germany, a team of eight employees has concentrated their CCT efforts on improving our metal plating process for connectivity products, and the results have been monumental.

The project was completed in fiscal year 2006 and has saved our company \$524,000. These cost savings, Wolfram Döring, project leader at our Berlin facility, said are due to our excellent relationship with Schempp and Decker, a German supplier of electroplating and finished metal parts.

"Schempp and Decker are, and continue to be, a key and critical partner in ADC's ability to maintain cost leadership in the marketplace. Their expertise and experience is world class, and to date, we have not found any company that can compete against their competence," Wolfram said.

We partnered with Schempp and Decker to improve our selective plating techniques used in the production of contacts that join copper cables. During the six-year project, both parties worked together to ensure the process was stable and reliable and that no degradation of our products' performance occurred.

"Because of this project, we now use less plating, which has resulted in shorter processing and lead times and has reduced costs in our global supply chain." The project has minimized the use of silver by 9 percent.

Team members said they are sharing all of the specification changes resulting from this project throughout the company and are investigating ways to implement process improvements with other plating vendors.

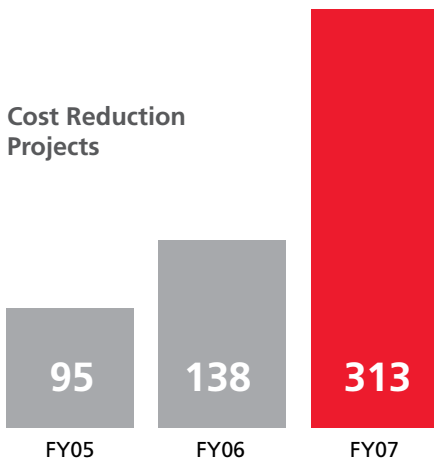


Other team members include: Peter Becker, Quality Manager; Ursula Freitag, Commodity Manager; Beate Jenke, Quality Engineer; Stefan Gustavus, Production Engineer; and Manfred Muller, Development Engineer; with sponsorship from Wolfgang Mattern, Head of Procurement.

Did You Know?

CCT FAST FACTS

ADC tracked 95 cost reduction projects in fiscal year 2005 and 138 in FY06. We expect to complete 313 cost reduction projects in FY07.



Of this year's 313 cost reduction projects, 51 projects generate 80 percent of our \$45 million cost-out target for FY07.

Seventy-two of the 313 cost reduction projects are already complete—generating \$13 million toward our \$45 million target.

To support increases in cost reduction projects, product change orders (MCOs) have increased from 10,000 in FY05 to 14,000 in FY06 and are estimated at 18,000 this year.

ADC's product list for distributors has been reduced by 35 percent from 52,000 to 33,600 part numbers.

Seventy-seven percent of the part numbers were removed from the latest Verizon contract. The contract now includes less than 1,300 products.

Global Connectivity Solutions (GCS) has 55,000 active saleable products. Six percent of the products (3,300) are designated as "leading," which means they feature our best technology and shortest lead times.

ADC's average order size increased 15 percent in the past two years from \$5,261 in 2005/2006 to \$6,079 in 2006/2007, improving customers' and ADC's efficiency.

An order for an existing GCS product in the Americas costs approximately \$150 to process; based on our average gross margin, orders less than \$450 in revenue are unprofitable. An order for a customized product that requires engineering costs more than \$4,000 to process, so order volume on these need to be, on average, greater than \$12,000 to be profitable for ADC.

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