INFORTE

CORPORATE OVERVIEW
THE DCM INDEX

DEMAND CHAIN MANAGEMENT

Demand Chain Management, or DCM, describes the philosophy of aligning value chain activities with demand. It includes an operational process of forecasting, capturing, stimulating and responding to demand in an integrated, enterprise-wide manner. Companies that are successful in this endeavor — those that can accurately forecast demand and, subsequently, respond decisively and correctly to the forecast — create a substantial strategic advantage over their competition.

IDENTIFYING DEMAND-DRIVEN FIRMS

To identify how successful firms are at managing by demand, Inforte has created a metric called the "DCM Index." While any actionable analysis would require a substantive understanding of the operations of a specific company, we believe the DCM Index provides a quick, high-level measure of a firm's ability to forecast and respond to market demand.

Companies that are successful at DCM tend to produce a consistent profit margin due to effective control over supply and demand dynamics. Therefore, the DCM Index uses revenue as a proxy for ability to fulfill demand and costs as a proxy for ability to manage supply. Because nearly all corporate decisions should be driven by demand, cost data includes both operating expenses (i.e. cost of goods sold) and non-operating expenses (i.e. selling, general and administrative expenses).

By finding the correlation between the quarter-to-quarter change in both revenues and costs, we produce a fairly accurate view of the adjustments, or lack thereof, that a firm makes to its cost structure when revenue changes. For example, a firm that scores well on the DCM Index will respond to a 30% decline in quarterly revenue with an almost equal decline in costs and expenses for that quarter. However, a firm that scores poorly on the Index may have only reduced costs by 5% or, perhaps, even saw costs rise.

METHODOLOGY

The DCM Index for a firm is compiled by first obtaining quarterly revenue and cost data for a particular time period. For our initial data set, we compiled data from Q1 1999 to Q3 2001. It is important to note that the longer the time period, the greater the accuracy of the Index, as any short-term deviations will be smoothed within the long-term trend.

The next step is to calculate the change in revenue and costs on a quarterly basis. This creates two arrays — one indicating quarterly revenue changes over the specified time period and one indicating quarterly cost changes.

These two data sets are then graphed and correlated to produce the DCM Index. The DCM Index is essentially a correlation coefficient and assumes a value from -1 to 1, depending on the degree of the relationship. Plus and minus one indicate perfectly positive and negative relationships, whereas zero indicates that revenues and costs are not at all correlated. The "higher" a firm's score — the closer it is to one — the more positively correlated costs are to revenues (i.e. costs fall when revenue falls and vice versa) and the more demand driven the firm. Conversely, a "low" score indicates that a firm is not very successful at managing by demand.

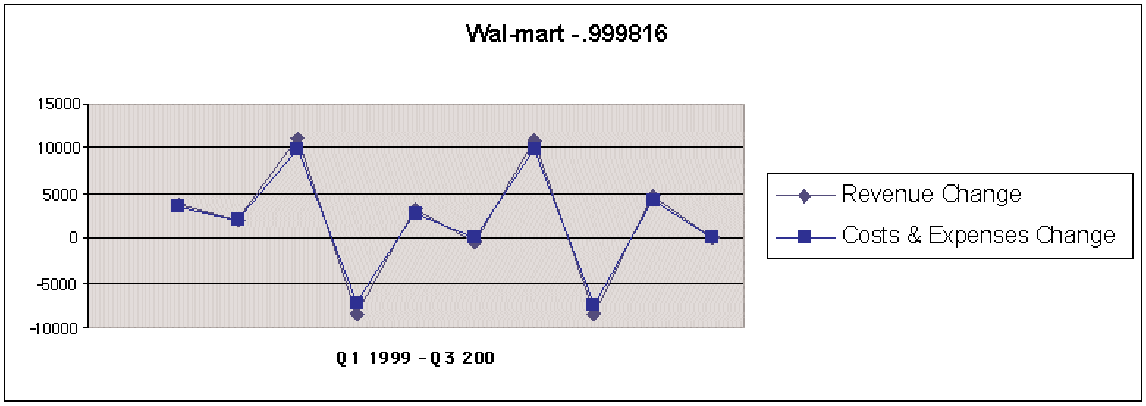
The major exception to the accuracy of the Index in predicting ability to manage by demand is that an organization that is able to do what all firms dream of doing — growing revenues while at the same time reducing costs — will end up with an "unjustifiably" low DCM Index. In fact, a firm that can do this perfectly (i.e. follow a 30% rise in revenue with a 30% decline in costs) will have a score of negative one as their costs are negatively correlated with revenues. However, a perfectly negative correlation can also indicate that a firm has increased costs to the exact degree that revenues have fallen.

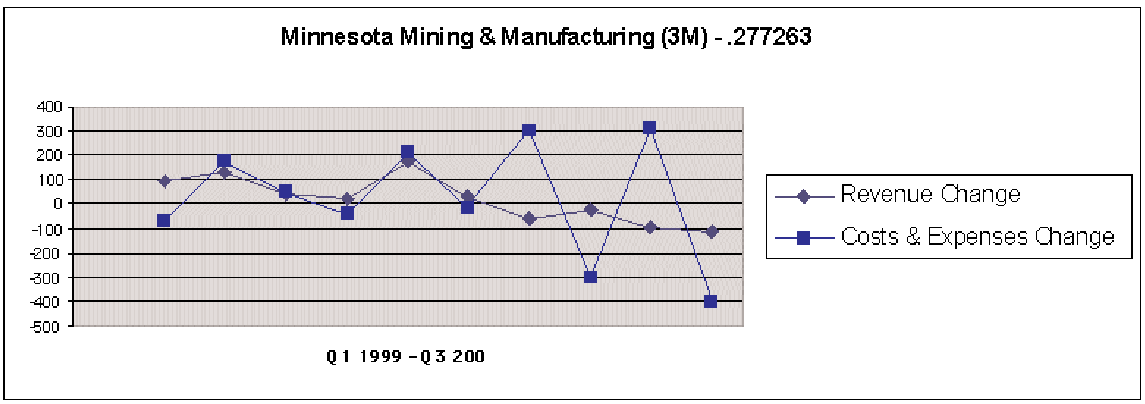
For this reason and others, it is important to graphically examine a firm's Index, as it provides a clearer picture of what is occurring, especially if the correlation is slightly negative or very close to zero. All of the firms with a low DCM Index that Inforte has examined failed to adjust costs as revenues fell, but there may be some firms that are able to consistently reduce costs as revenues rise — resulting in a low DCM Index.

EXAMPLE DCM INDICES

As examples, below are Indices from two firms in the Dow 30: Wal-Mart and Minnesota Mining & Manufacturing (3M). As the graph indicates, Wal-Mart has a high DCM Index and seems to correlate costs almost perfectly with the rise and fall of revenues. 3M, on the other hand, has a low DCM Index and in the fourth quarter of 2000, for example, saw costs rise as revenues fell.

Demonstrating another important consideration of the Index, it is unfair to directly compare 3M to Wal-Mart. The DCM Index should primarily be used to compare firms that compete within the same industry, as cost structures, business models and external economic factors vary by industry. The average score within the retail industry may be around .95, whereas the average score in the diversified chemical and manufacturing industry may be .35, putting 3M closer to the top of its industry than expected.





MORE INFORMATION ON THE DCM INDICES

Inforte continues to develop and refine the DCM Index as a measure of a firm's ability to manage by demand. Data sets organized by industry are available for review and analysis, and the resulting Indices are updated as quarterly financial results are available. Building on the quantitative data, a more thorough analysis of the Indices by industry and by firm identifies opportunities for developing significant competitive advantage by improving a firm's relative ability to manage by demand.

ABOUT INFORTE

Demand chain management consultancy Inforte Corp. (Nasdaq: INFT) helps clients create strategies and implement technologies that capture, manage and integrate customer and other demand information into all aspects of the value chain, enabling companies to become more demand driven and demand responsive. Inforte's client advocacy approach and rigorous delivery methodologies have garnered the trust of Global 2000 clients, produced industry-leading project-efficiency metrics and helped Inforte earn references from 100 percent of its clients. Founded in 1993, Inforte is headquartered in Chicago and has offices in Atlanta, Dallas, London, Los Angeles, New York and San Francisco. For more information, contact Inforte at 800-340-0200 or visit www.inforte.com.