

Household products company mops up in procurement process

An international manufacturer of branded cleaning products including brooms, mops, scourers, sponges, and brushes wanted to reduce the cost of its direct and indirect spend including that of its raw materials and the process by which they are sourced. The company assembles its products in the U.S. while sourcing components within North America, Europe, and the Pacific Rim.



Key Metrics

- Reduced cost of transport packaging
- Reduced cost of in-store display cartons
- Reduced cost of flexible packaging
- Aggregate savings of \$500,000-\$600,000 with an additional \$100,000 to come
- ROI \geq 4:1

A leader in almost all countries based on its detailed knowledge of the market, product innovations, and a pronounced customer orientation, the company considers its global quality system to be a critical operating system for all its businesses, especially those that cater to customers, such as Walmart, that have the absolute tightest margins and exacting standards for their preferred suppliers.

Their business was growing leaps and bounds and, with very high profits and great margins, they were looking forward to a record year though the expectation, as most knew in the commodity world, was that the coming year was going to be fairly difficult. With higher expectations from management, and some aggressive cost savings targets, they realized they were going to need some additional help.

After a competitive review process, the company selected USC Consulting Group (USCCG), an operations management consulting firm known for business performance improvement in the area of spend management. Explaining the decision to engage an outside resource, the manufacturing and

purchasing manager for the U.S. said, "First and foremost resources and horsepower were key; secondly, experience and supplier knowledge. But, most importantly, we wanted the actual process to be laid out from A to Z so that it would be completely transferable to the folks who work here, who'd be so completely immersed in it, that they'd be able to use it on an ongoing basis."

Once engaged, the consultants toured the plant, met with each member of the management team independently, and discussed taking the company's Lean program to the next level by focusing on the supply chain. Ultimately, it was agreed that the initial effort should be primarily in sourcing and production. USCCG proposed a structured approach to achieve initial cost reductions in sourcing several spend categories: transport, display cartons, banderole, and flexible packaging.

A second series of activities focused on direct materials and components of the product offering.

The consultants began by analyzing spend, grouping it into supply base categories, agreeing on priorities, and then developing a category strategy. They then developed supplier metrics, established product and service specifications and parameters, and proceeded to assess value engineering opportunities within each category.

Next, they developed an incumbent supply base, cleansed vendor information, and established preliminary supplier qualifications. Then, began a search for additional potential suppliers preparatory to conducting a formal supplier selection process in which they sought, received, and analyzed bids. They negotiated with viable vendors, subsequently awarded the business, and prepared and executed contracts. Lastly, they developed a transition plan including inventory and service parts. This approach was repeated for all targeted categories.

When asked to quantify the value USCCG delivered during the initial engagement, the manufacturing and purchasing manager for the U. S. said, "For the first three categories we looked at, we saved on average about 13%, which in dollar terms is around \$500,000-\$600,000. We did chip board and we did the displays for our promotions. We're also working on packaging now and the thought is that there is probably another \$100,000 in savings there."

With a successful initial engagement behind them, the company and consultants are turning their attention to a follow-on engagement which will entail four fairly sizable commodities that are currently among the most volatile commodities in the world: steel, plastic, cotton, and sponges with expectations of similar savings to come.

"Because the process is so standardized, so clear and well-defined, it allowed us to really filter down to the suppliers we wanted to work with. In the end, it saved us a considerable amount of money."

- Manufacturing and Purchasing Manager for the U. S., Manufacturer of Household Products



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