

Case Studies: Procurement Spend Reduction for one of India 's leading manufacturers of electrical and power equipment

Established strategic, tactical and execution procurement processes, identified new supplier, developed contracts and negotiation plans to improve the competitiveness by reduction in the total procurement costs



Industry

- Heavy Electricals Manufacturer

Business Scenario

- Losing Margins & Market Share
- Unpredictability in Supply
- Inadequate Quality Process
- Unit Price Costing Gaps
- Procurement Process Gaps

Our Solution

- Establishment of strategic procurement process
- Establishment of tactical & execution processes
- Identification of new suppliers
- Development of Contracts & Negotiation plans

Benefits

- 8-10% reduction in material cost for class A material
- Substantial annual cost savings
- Elimination of all manual procurement planning process

Background

- The client is operating in the heavy electricals manufacturing sector in India. The assignment done for the transformers division, characterized by a highly competitive market and a tough upstream supply market
- Client has been losing margins and market share as competition became stiffer. Also, unpredictability of the supply market, specifically metals - Copper and Steel, has resulted in increased direct material costs
- Inadequate quality processes that monitored compliance of actual (delivered by vendors) versus specifications (as required by client) of key sub-assemblies has also resulted in cost leakages.

Existing Procurement Process Assessment

Unit Price Costing Gaps:

- Inability to compare the market prices with internal benchmark
- Non-uniform pricing of a material across vendors within the same month
- Sub-optimal sourcing i.e. while some material had more than 8 vendors operating (supplier fragmentation), others had 1 or 2 vendors (single sourcing)
- No long term contracts with vendors despite having sizeable volume to leverage

Process Gaps:

- Manual & sub-optimal procurement planning and control
- Need for a much improved material cost leakage avoidance QA process
- Metals commodity hedging not practiced
- Industry/peer analysis done by Aqua MCG, revealed that there existed a large gap with respect to the extent of backward integration done by the client's competitors for the top 2 materials.

Our Solution

- Establishment of strategic procurement processes including corporate teams for strategic sourcing, plant specific category managers, quarterly material portfolio process, sourcing group framework development, etc.
- Establishment of tactical and execution processes including internal target costs, supplier cost structure, cost analysis, quantity-discount analysis, fixed-variable cost analysis, structured procurement planning process, etc.
- Identification of new suppliers comprising, formal supplier selection process, templates to prepare RFx, etc.
- Development of Contracts and Negotiation plan including, volume based contract scenarios, price variation clauses, negotiation plan and evaluation process, etc.

Benefits

- Planned 8-10% reduction in material cost for A class materials.
- Estimated 3.5 Cr to 4 Cr annual cost savings for one of the A class materials [7%]
- Elimination of all manual procurement planning process