



INDUSTRY IN FOCUS

SUPPLY CHAIN AND STRATEGIC SOURCING



Summer 2016 Spotlight

Strategic Sourcing: A Key Component of Best-in-Class Supply Chain Management

About Us

Synergetics is a privately held New England-based Management Consulting firm established in 1975. With office locations in the US and UK, Synergetics operates internationally and employs over 150 professional analysts, consultants, project managers, and subject matter experts.

As one of the largest "Implementation Consulting" organizations, Synergetics has completed over 1,600 business process engagements across nine distinct verticals to build more than \$8B in bottom line profitability and improve overall operating efficiencies. Synergetics works with a diverse client portfolio of leading industrial and service corporations across Private Equity, Small and Medium Enterprises, and Fortune 500 Companies.

With customized services and solutions, Synergetics performs hands-on detailed management, financial, and operational assessments to develop and deliver specific cost savings and revenue enhancement initiatives.

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"Synergetics' Supply Chain initiatives were valuable to me as a new executive to the Capstone team. Their involvement allowed me to quickly establish solid strategic initiatives all the way through to completion."

"One of the aspects that sets Synergetics apart from other consulting groups is that they understand the importance of implementation. Framing the strategic initiative and developing the road map of implementation is only half the battle. Project management through the final implementation phase is critical for full benefit to be realized."

Alec Charters
Vice President Supply Chain, Capstone Nutrition



INTRODUCTION

Synergetics' fourth edition of "Industry in Focus" highlights a key service line product rather than a specific industry in this case. **Strategic Sourcing plays an essential role within a company's Supply Chain Management (SCM) program to make it more effective**, serving as a catalyst for cost savings. Synergetics has the experience and expertise necessary to deliver sustainable SCM results to give such companies a competitive advantage within their particular industry.

Globalization and a technology-driven world economy have elevated procurement to the spotlight, as executive teams across all industries search for savings opportunities. These opportunities remain elusive as product life cycles are more compressed, product variants have become more complex, and suppliers occupy a greater distribution footprint.

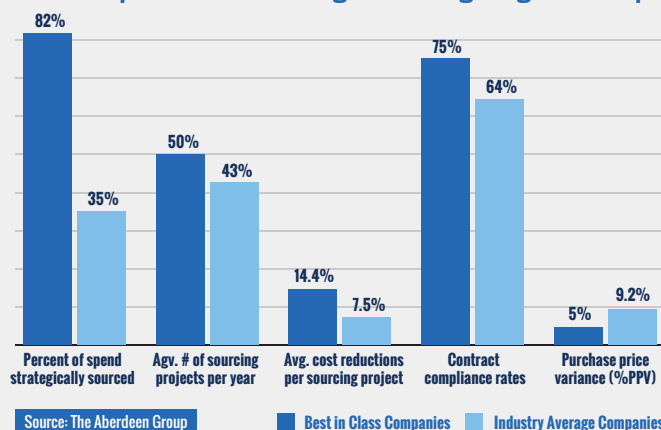
This article begins to detail the framework of a typical Synergetics Strategic Sourcing project, from initial steps that include a Spend Analysis through implementation of Supplier Management Practices. It also showcases three of Synergetics' more recent Strategic Sourcing initiatives, **each having resulted in significant and sustainable bottom line savings**. Such results are achieved by having Synergetics' SCM subject matter experts onsite, who bring first-hand experience and practical insights to each client engagement.

STRATEGIC SOURCING: BEYOND LOWER PRICES

Market leading or best-in-class companies benefit from several facets of having a strong Strategic Sourcing program. Not only does having this advantage entail being able to leverage better pricing, but it also allows for a broader range of opportunities that exist under a more robust set of SCM/procurement parameters.



Companies With Strategic Sourcing Programs Outperform Those Without



Best in class companies with Strategic Sourcing programs benefit from more than just receiving preferred pricing. Although these drive higher cost savings, other benefits extend beyond these variances. Those companies will also likely obtain a higher percentage of sourcing projects, more with increased cost reductions, enforcement of higher contract compliance rates, and having more control over total spend.

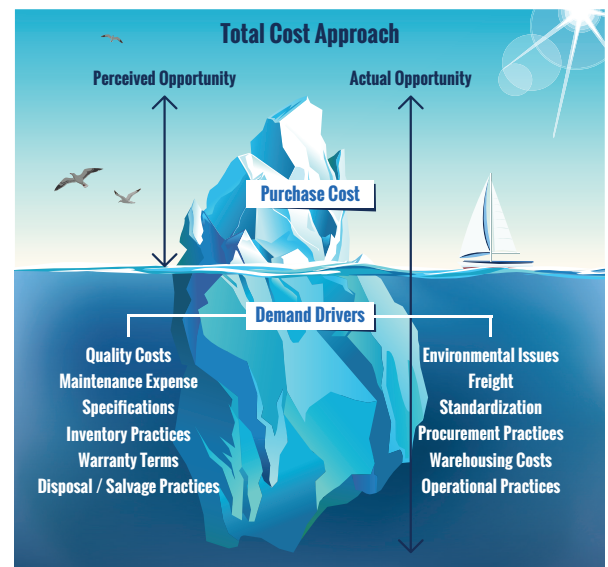
SCM has become an increasingly important factor in most organizations' overall strategic growth plans. Best-in-class companies have dedicated leadership teams driving this agenda, as one of these positions would likely include a "Chief Procurement Officer," for example. As companies face ever increasing competition, they can no longer afford to leave sourcing out of their overall strategic plans to increase margin.

TOTAL COST APPROACH

Taking a **Total Cost Approach** that looks beneath seemingly apparent purchasing costs, to identify areas and processes within the entire supply chain / procurement program, can help yield significant savings and close practice performance gaps. **What amounts to additional revenue can be attributed to uncovering real savings.**

Finding these types of savings is accomplished through the implementation of a Full Value Procurement program versus the more traditional approach of mainly focusing on purchase cost considerations. To begin this process, Synergetics starts by conducting a Spend Analysis, central to quantifying opportunities associated with implementing a strategic procurement operation with assigned workstreams.

Successful plan Implementation requires full leadership support and organizational alignment to deliver and sustain cost improvements. **A Total Cost Approach coupled with Full Value Procurement are key components of any best-in-class Strategic Sourcing program.**



FULL VALUE PROCUREMENT

A procurement infrastructure is often complex and needs to be well designed in order to support a successful Strategic Sourcing program and strategy.

Synergetics is able to drive this process by:

- ✓ identifying key stakeholders
- ✓ incorporating best practices to align with organizational culture
- ✓ removing barriers to change
- ✓ piloting training programs

Synergetics' "Full Value Procurement" methodology ensures a successful approach and sustainable program implementation that differs from Traditional Procurement. This newer Full Value program will yield ongoing results, add value, and elevate the entire sourcing function to a strategic and critical role within an organization.

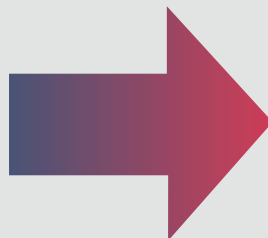
Procurement Infrastructure



Transformational Changes in Procurement Create Cost Savings & Partnership Opportunities

TRADITIONAL PROCUREMENT

- Focus on Tasks
- Function Isolated
- Reactive
- Insular, Static
- Unit Price
- Reliance on Tendering
- Adversarial Supplier Interaction
- Suppliers as the Enemy
- Win/Lose
- Corrective Measures
- Goldplating or Undefined Standards
- Lowest Price Bidder, Price Driven



FULL VALUE PROCUREMENT

- Focus on Process Performance
- Function Integrated with Line
- Proactive
- External Focus, Dynamic
- Total Cost Framework
- Diverse Sourcing Strategies
- Creative Collaboration, Trust
- Suppliers as a Key Resource
- Win/Win
- Preventative Measures
- Fit for Purpose
- Best Value Bidder, Value Driven

SYNERGETICS' STRATEGIC SOURCING METHODOLOGY: FIVE STEPS TO ACHIEVING SUCCESSFUL PROJECT IMPLEMENTATION

1) Laying the Groundwork for Strategic Sourcing

The foundation of any successful Strategic Sourcing project is having access to accurate and timely purchasing data. Historical data provides a baseline to establish KPIs and a means of tracking purchase price variance (PPV). Keeping detailed inventory records via stock keeping units (SKUs) is essential in moving to an automated system to better track purchases and decrease manual input.

2) Identifying Opportunity

When analyzed thoroughly, purchasing data provides a wealth of insight into how well a company purchases. It prompts leadership to revisit the overall purchasing strategy and identify savings opportunities. This level of oversight will help to ensure that volume purchases and group pricing practices are being leveraged and utilized.

3) Supplier Qualification

A sourcing strategy provides an opportunity to revisit relationships with incumbent suppliers and establish new ones with new suppliers. Request for Proposals (RFPs) are an excellent way to level the playing field to yield competitive and best pricing among a group of suppliers. Ultimately, the majority of Strategic Sourcing savings opportunities will derive from supplier negotiations.

4) Selecting the Best Suppliers

Those who are unfamiliar with Strategic Sourcing practices might be apprehensive about or feel unprepared for the negotiation portion of supplier selection, but a well planned and executed RFP can serve to eliminate those doubts. A "Total Cost Approach" in the RFP process and as part of supplier negotiations aims to include a thorough set of decision making criteria such as all cost and logistical considerations, warranty



terms, freight, quality and even environmental factors. Through this process, suppliers can be objectively evaluated and potentially eliminated by not meeting certain provisions and quality standards.

5) Moving Forward: Suppliers to Partners

Once the final suppliers have been chosen and contracts are in place, a new relationship is established with the opportunity to further evolve that relationship from a provider to more of a strategic partner. A company may choose to include suppliers/partners in resource planning and work collaboratively to meet company growth requirements through consistent support and communication.

THE FUTURE OF STRATEGIC SOURCING: PROCUREMENT AS A PROFIT CENTER


For those companies with a best-in-class procurement process, the future is now!

The following example illustrates how cost savings through Strategic Sourcing is directly equivalent to an increase in sales revenue. With two competing companies selling identical items in the same manner (per the Prescribed Baseline), Company A implements a Strategic Sourcing process that *reduces its COGS by 5%*. In order to generate an *equivalent margin* using its

current processes, Company B would have to sell 28% more volume than Company A. Although Company A implemented a relatively minor cost reduction through its Strategic Sourcing program, **the effect on gross profit for Company B to match A is significant, so as to require a nearly six-fold improvement in sales based on current operations.**

In a time with businesses looking to cut expenses and explore other cost savings alternatives in volatile markets, many turn

to Synergetics as a trusted and experienced partner that provides a comprehensive approach to procurement and elevates companies to best-in-class status. **A company that utilizes a disciplined approach to a well-structured SCM procurement program essentially creates another profit center for itself.**

Prescribed Baseline		Company A – 5% Cost Reduction			Company B – No Change in Operations	
Sales Revenue	<u>\$50.00</u>	 <div>5% ↓ \$2.12 ↑</div>	Sales Revenue	\$50.00	Sales Revenue	<u>\$64.13</u>
COGS	\$42.50		COGS	\$40.38	COGS	\$54.51
Gross Profit (15% Fixed Margin)	\$7.50		Gross Profit (Now @ 19%)	<u>\$9.62</u>	Gross Profit (15% Fixed Margin)	<u>\$9.62</u>
				Sales Volume Must Increase by \$14.13, or 28%		

SCM EXPERIENCE THAT COUNTS

Synergetics has extensive experience addressing SCM procurement challenges for companies, both large and small, across different market sectors. Synergetics works with all stakeholders across the organization, particularly IT, to ensure that the necessary infrastructure, reporting systems, and training programs are in place to fully leverage the process.



STRATEGIC SOURCING SUCCESS YIELDS BOTTOM LINE RESULTS

Highlights from three recent client engagements represent successful Strategic Sourcing implementations of varying scope.

1) A Forbes Global 2000 Company	2) Medium-Sized Manufacturer	3) Small to Medium-Sized Company
<p>A leading global supplier of banking and investment software products engaged Synergetics to implement a cost savings initiative and finalize the organizational design of an international cost takeout program. New CEO and leadership team were in a turnaround situation to address lagging sales, eroding margins, and failing to compete in a complex market.</p> <p>Results Overview: Two-month in-depth Analysis identified 9 areas of opportunity, leading to three named workstreams: Procurement, Software Development and Revenue Leakage. Focus was a 14 spend area reduction with process standardization, divided into two 1-year implementation phases. By leveraging the international nature of this company, superior pricing and vendor partnerships were developed, as were newly refined procurement processes.</p> <p>Strategic Sourcing emphasis included Contract Re-bids, Consolidations, and Reductions in areas such as facilities, materials and functions.</p> <ul style="list-style-type: none"> • 35% savings in the re-bid of insurance contracts • 34% savings from marketing vendor consolidations • 30% reduction in travel costs • 17:1 two-year ROI equaling £17M, or 32% of total project savings of £53M 	<p>A long-time PE partner requested Synergetics conduct a Due Diligence (pre-M&A) of a multi-facility nutraceutical manufacturer, followed with implementation projects to lead multi-facility practice integration efforts for standardizing all practice areas. Initial Analysis identified 3 core initiatives that included one to be cost savings within procurement. SCM / Procurement was the biggest area and given immediate priority, as large volumes of purchases were made from numerous domestic and international sources, with no adequate controls in place.</p> <p>Results Overview: Two-week Due Diligence, followed by phased 2-year Project Implementations, with 1 of 3 major workstreams being Strategic Procurement. Standardized all facility policies / procedures for reporting and best practices.</p> <ul style="list-style-type: none"> • SKU rationalization, spend analysis, strategy planning, RFQs, negotiation, supplier selection / management, KPI reporting were key areas • Other corporate initiatives: executive S&OP, master data management, planning & production scheduling, and cumulative lead time analysis • 5:1 ROI and \$3.8M of annualized savings (\$1M above target of \$2.75M) through commodity based RFQs, vendor negotiations and long-term strategic partnerships 	<p>Both PE and company leadership teams of a turnkey provider of direct marketing and document outsourcing solutions selected Synergetics to assess its Strategic Sourcing and process improvement programs. Despite several in-house attempts, they had no previous success in being able to initiate purchasing cost reduction measures or accelerate operational efficiency improvements. They had neither a process nor means to measure performance.</p> <p>Results Overview: Two-week Analysis led to a 28-week Project. With executive and IT support, Synergetics mapped and designed a system/process to track purchase price variances (PPV) on thousands of products to capture savings / reductions. Several other performance indicators were also included.</p> <ul style="list-style-type: none"> • Standardized a uniform ERP system for data collection, with procurement reporting tools / metrics across various facilities • Focused efforts on conducting RFP releases targeted at all spend: raw materials, freight, and other non-direct materials. Outlined a categorization scheme to group and track like products and account for variances • The success of this RFP process led to specific savings of nearly \$1M on only \$15M of addressable spend on an annualized basis for 3:1 ROI

A Three-Step Process for Guaranteed Results

Although individual business engagements may hold their unique set of challenges, Synergetics' approach typically follows a three-step process toward ensuring a successful client engagement

PRE-ASSESSMENT

Purpose: Understand operations & challenges - at Synergetics' expense

BUSINESS ANALYSIS

Purpose: Validate true opportunities through detailed analyses

IMPLEMENTATION PROJECT

Purpose: Plan & execute the implementation of objectives - guaranteed ROI of 3:1

FOR MORE INFORMATION

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