

# Profitability Increase in Food & Beverage Industry

## PICTURES BEFORE

### Spend Analysis Risk-Impact Analysis Cost Structure / SKU



Example

## PICTURES AFTER

### Partnership Creation Standard Contracts VAVE Exercise

**PURPOSE**

- To co-develop mutually beneficial ideas with individual suppliers

**APPROACH**

- Select potential suppliers and prepare outside-in estimations of possible reductions
- Issue invitations to selected suppliers and propose joint cost-savings collaboration
- Request cost breakdown for each MQL step and overhead
- Conduct Lean factory walkthrough at supplier site
- Further identify and/or confirm potential cost savings and develop implementation roadmap
- Further support supplier in implementation of found cost savings

**AVERAGE TIME REQUIRED**

- 2 weeks

**PARTICIPANTS**

- Procurement engineer
- Development
- Cost engineer
- NP/ILCM

## Problem

- Poor quality suppliers: low service level, low OTIF and high defect rates
- Frequent stockout of critical raw materials, affecting production
- “Supplier dictates the rules” – limited leverage for negotiation
- Uncontrolled stock of raw materials and subsidiaries

## Root causes

- Different contract conditions for each supplier
- Strategic suppliers not identified
- Purchase of commodities not standardised
- No repercussions for suppliers who fail with service level agreements

## Solution approach

- Definition of strategic partnership model approach
- Contract renegotiation based on standard contract model designed for each supplier category
- Definition of alternative suppliers for critical materials
- VAVE Projects: Value Analysis Engineering in order to identify opportunities to reduce complexity and/or quantity of materials
- Process Design to reduce the Lead Time of the material approval process

## Benefits

|                 |                                  | SAVINGS      |
|-----------------|----------------------------------|--------------|
| <b>SOLUTION</b> | Commercial Strategy              | £318k        |
|                 | Pull Stock Management            | £330k        |
|                 | Negotiation Improvement          | £615k        |
|                 | Quality Improvement              | £34k         |
|                 | Process Improvement              | £300k        |
|                 | Value Analysis Value Engineering | £50k         |
| <b>TOTAL</b>    |                                  | <b>£1.6m</b> |

