

Sourcing Optimization At Specialty Industrial Equipment Manufacturer: Consolidating And Creating Value-Added Relationships With Vendors

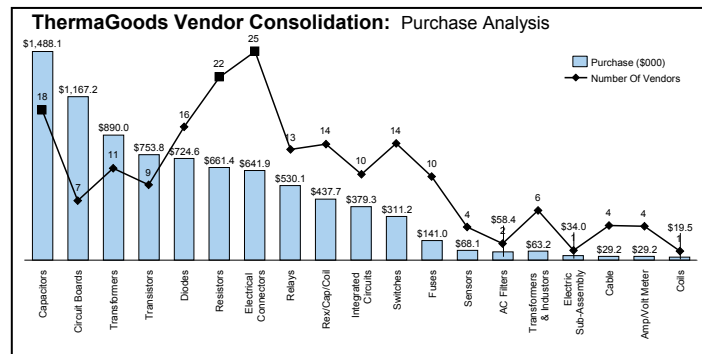
The Challenge: ThermaGoods, a leading manufacturer of specialty industrial equipment, was facing declining sales volume and increasing cost pressure forcing it to re-evaluate its supply chain and costs. ThermaGoods asked us to perform a 2-week diagnostic to assess the issues and areas of opportunities in their supply chain.

The Partnership:

Analysis: Our diagnostic revealed that ThermaGoods procurement activities could be significantly improved.

We analyzed ThermaGoods historical purchasing and found that its supplier based was greatly fragmented, characterized by:

- Multiple vendors for same commodities, e.g., hardware: 33, electrical connectors: 25, resistors: 22, diodes: 16, relays:13
- Top 20 vendors accounting for over 50% of total transactions
- 227 items sourced from more than one vendor
- Bottom 200 vendors representing less than 5% of total transactions.



Interviews with the purchasing and manufacturing organization revealed reactive, transaction-focused business processes characterized by frequent expediting and deferring, little or no exception reporting, material shortages, absence of vendor management performance measures, and one-way communication with vendors.

Strategy: Working with the management team, we recommended that ThermaGoods carry out a vendor consolidation effort focused on commodity purchases to:

- Capture volume discounts by concentrating purchases with selected vendors
- Reduce number of transactions and day-to-day work load of the purchasing department
- Improve supply reliability by developing a closer relationship with vendors, including providing forecasts to vendors and instituting VMI programs
- Collaborate with vendors in product development processes.

We analyzed the opportunity associated with each commodity and developed a sequence for capturing the vendor consolidation opportunity.

Execution: Because the purchasing team was not experienced in vendor consolidation, ThermaGoods management asked us to stay on and assist the team in the vendor consolidation effort. We focused our initial effort on electrical parts as these were purchased through distributors and there were a few large distributors that offered potential to supply the majority of ThermaGoods electrical part requirements. To this end, we helped ThermaGoods purchasing team:

- Develop RFPs for sourcing these parts, including volumes, specifications, and other details
- Identify potential suppliers
- Develop selection criteria
- Evaluate vendor bids and select vendors
- Develop a migration plan.

The Results: Electrical component vendor consolidation yielded \$450K in direct purchasing savings and elimination of \$1.5MM from component inventory. Secondary effects have included reduction in purchasing and stockroom labor. Additional savings are expected as vendor consolidation efforts are rolled out to other commodities.