

LARGE ENGINE MANUFACTURER

GLOBAL STRATEGIC SOURCING

SPOTLIGHT ON EXCELLENCE

Client realized annual savings in excess of \$20 million (21%), developed a low cost sourcing strategy in conjunction with an International Procurement Office (IPO), and upgraded the skill-level of over 130 professionals by receiving over 80 hours of training in negotiations, sourcing methodology, executive interviewing, supplier due diligence and alliance managements..

CHALLENGE

Client lacked a consistently applied strategic sourcing process, had not leveraged low cost sourcing options, faced pricing pressure from competitors, and its workforce lacked the required skill sets and had not received formal training to address future challenges.

EVALUATION

The Gibson team gathered and analyzed the client's supply base, customer requirements and annual material and service spends. Potential savings opportunities were uncovered and various technical and organizational issues impeding cost-effective performance were identified. Specifically, the Gibson team:

RESULTS AT A GLANCE

\$20 MM+
IN REALIZED ANNUAL SAVINGS

91%
REDUCED SUPPLY BASE

95%
ON-TIME DELIVERY METRICS

IMPROVED LONG-TERM
PRICING STABILITY BY IM-
PLEMENTING PROGRAMS
TO PROACTIVELY MANAGE
COMMODITY PRICING.

OBTAINED ENGINEERING
SUPPORT FOR NEW PRODUCT
DEVELOPMENT AS WELL AS
PRODUCT RATIONALIZATION.

The Gibson Team:

- Conducted interviews with cross-functional and cross-divisional professionals and facilities management teams and gathered extensive data to benchmark costs and processes
- Identified opportunities to work with “Global” suppliers to obtain tremendous operational benefits and lower overall cost
- Recognized need for skill-based training, development of a project work plan and timeline to realize savings.
- Performed a detailed end-to-end supply chain diagnostic to map out current state
- Identified suppliers of strategic, single-sourced components across several categories that were “holding the client hostage” in terms of unfavorable contract conditions & pricing

APPROACH

To achieve total cost savings, Gibson Consulting implemented a global Strategic Sourcing project targeting twelve specific categories: Iron & Aluminum Castings, Gears, Electrical Wire Harnesses, Fittings & Hoses, MRO & Production Supplies, Forgings, Machined Components, Fabrications, Fasteners, Oil and Air Filters, and Generators. Gibson then:

- Gathered and outlined data requirements
- Revised sourcing department organizational structure and created job descriptions and qualifications consistent with those considered “Best in Class”
- Trained client teams in Methodology, Executive Communications, Negotiations, Executive Interviewing, Supplier Due Diligence and Alliance Management to ensure sustainability of improvements
- Invested significant time and resources to thoroughly understand the industry and the commodities marketplace
- Defined and carefully developed commodity specific negotiable issues for effective/efficient negotiations
- Challenged client to truly consider “Global” suppliers and not necessarily rely on those suppliers within a 150 mile radius of their manufacturing facility by identifying and contacting over 1200 suppliers globally



RESULTS

Cost savings were achieved by reducing the client's supply base and significantly improving alliance management. Ongoing cost reductions will be sustained by new organizational structure, which has increased the awareness of sourcing issues among management.

- Realized over \$20 million from Phase I in savings annually – 21% savings.
- Implemented new, global supply agreements with alternate suppliers allowing dual-source options on strategic components.
- Reduced supply base by 91%
- Established consistent processes across all disciplines
- Established clear metrics to evaluate supplier alliances
- Restructured client's organization with new focus on professional development and measurement
- Improved cash flows by extending payment terms by 45 – 90 days. Also obtained attractive discount terms for early payment
- Significantly improved inventory turns by implementing inventory management programs such as consignment, JIT, Kanban, safety stock, local warehousing, & VMI programs
- Negotiated tiered volume rebates
- Improved long-term pricing stability by implementing programs to proactively manage commodity pricing
- Obtained commitments for dedicated manufacturing capacity
- Established On-Time Delivery metrics of >95%
- Obtained engineering support for New Product Development as well as Product Rationalization

