MBA 541 Executive Summary – Spend Analysis Case

Problem Statement

The company seeks to investigate the procurement process's efficiency in terms of spending in order to determine whether it has a detrimental influence on operating costs and supplier relationships. In the event of inefficiency in terms of cost saving opportunities and supplier consolidations, the necessary recommendations must be provided.

Scope

The case's purpose is to use pareto analysis charts to assess a company's commodities spending and give recommendations on how to optimize spending in terms of cost reductions and supplier base consolidation.

Summary – Pattern Analysis

Firstly, the pareto analysis principle (sometimes known as the 80/20 rule, states that roughly 80% of effects are caused by 20% of the causes) was used to find cost-saving opportunities in our examination of the top 10 commodities by descending dollar spend. ***Figure 1.*** implies that our spending is roughly split over all ten commodities studied, and to be precise, around 80% of our spending is distributed across the top sixty percent of the commodities. However, drawing conclusions with such a small sample size (ten commodities out of 105) is difficult.

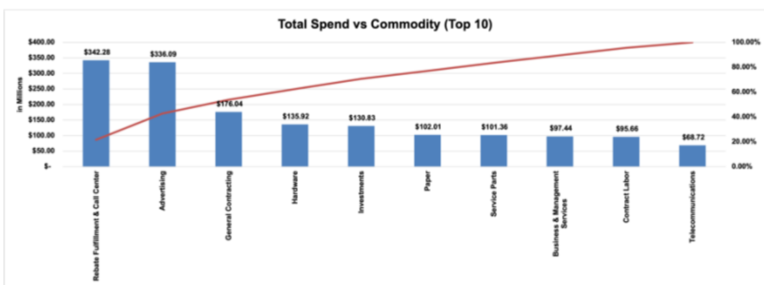

Figure 1. Total Spend per Commodity (Top 10)

Second, the same procedure was used to assess the top ten commodities in terms of supplier count. Again, the inference from ***Figure 2.*** is that the count of suppliers per commodity is evenly decreasing from the first to the tenth commodity, implying that the 80% of suppliers account for nearly half (50%) of the commodities. However, drawing conclusions with such a small sample size again (ten commodities out of 105) is difficult.

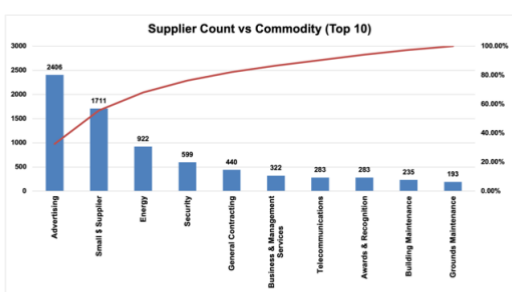

Figure 2. Supplier Count per Commodity (Top 10)

Finally, the same method was used to determine the average spending per supplier for each commodity. In this scenario, it was implied from ***Figure 3.*** that suppliers from one commodity – ***Investments*** alone accounted to more than 80% of the average spend / supplier.

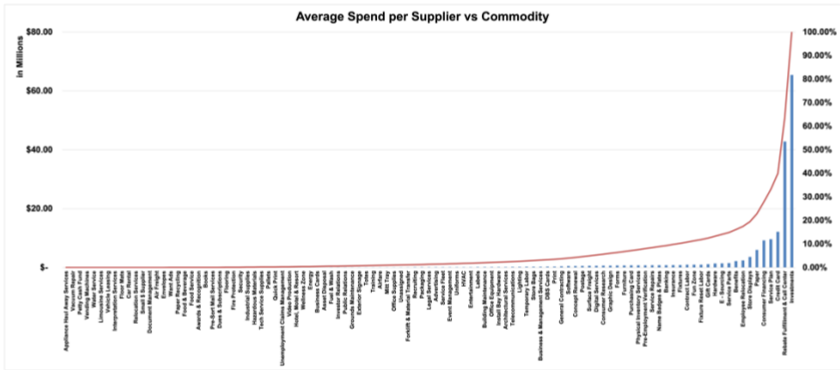

Figure 3. Average Spend per Supplier per Commodity

Recommendations

Although sufficient inferences cannot be taken from analysis of ***total spend per commodity chart***, it is clear that the majority is already spent in the top ten commodities, implying that there is a room for cost-cutting options by making the following adjustment.

- ***Contract Negotiation with Suppliers*** - Seeking volume reductions, longer-term agreements, or investigating other suppliers who can offer cheap costs without sacrificing quality can all be part of this.

The same holds true for the ***supplier count per commodity chart***, implying that the following change can aid in the process of supplier consolidation.

- ***Standardization and Streamlining*** - Process simplification and lowering the number of vendors for commonly purchased commodities can result in operational efficiency and cost savings.

At the same time, examining ***the average spend per supplier per commodity charts coupled up with the inferences from the other two charts reveals significant insights in supplier consolidation*** that may be missed when merely looking at total spend, and supplier count per commodity. Aiming to even out the imbalance in chart 3, the following adjustments can be made.

- ***Supplier Performance Metrics*** - Performance metrics can be developed based on the average spend per supplier for a commodity which has multiple suppliers. Metrics such as on-time delivery, quality standards, responsiveness, and total value can be included. Suppliers with high average spending should be assessed against these criteria since their performance might have a substantial impact on your firm.
- ***Supplier Consolidation*** – Consolidating a large number of low-value suppliers into fewer, high-value relationships can expedite procurement, decrease administrative overhead, and potentially lead to stronger negotiating leverage.

(For example, in Advertising, supplier consolidation process can be taken up considering the ***low avg. spend per supplier*** *(refer Fig. 3), the* ***huge number of suppliers*** *(refer Fig. 2) and the* ***hefty amount being spent over time*** *(refer Fig. 1), it becomes increasingly important to balance out the assure the quality of service offered with the other commodities of the firm and in terms of value earned back.)*

As a result, it is clearly evident that ***a balanced approach with all these three metrics*** will be significant in supplier consolidation depending on the nature of the commodity.