

ABC Ltd.

ABC Ltd. is the worlds largest manufacturer of bathing soaps. Its HQ located in Milwaukee, WI, USA.

It has 10 subsidiaries world wide:

3 in USA - Nevada, Texas and Florida - Caters to all across US

3 in Europe - Romania, France and Sweden - Caters across Europe (including turkey)

2 in Asia-Pacific - Australia and Indonesia - Caters to ANZ and ASEAN countries

1 in China - Caters to China, Taiwan and Korea

1 in Africa - Caters to ISA, MEA and Southern and Northern Africa.

ABC produces 3 different varieties of bathing soaps. (In bars for simplicity)

The 3 varieties are Tigers for Kids , Alexa for women and Wild Rancher for Men.

All the above varieties are produced in each of the 10 subsidiaries and distributed locally.

Names may differ but the content of the soaps remain the same.

Packaging and Marketing is done differently based on the markets the soaps are sold.

ABC has revenues of 3 BN USD ending 2016 Dec.

Its revenues have increased primarily in Non-USA nations. In recent years the growth has been impacted due to competition and local substitutes.

Below is the information of the company, brand and region wise.

Revenues in Billion USD

| Years / Units | USA (NA&SA) | Europe | China | ISA | APAC | TOTAL |
|---------------|----------------|--------|-------|------|------|-------|
| 2013 | 1.2 | 0.4 | 0.1 | 0.05 | 0.05 | 1.8 |
| 2014 | 1.25 | 0.5 | 0.15 | 0.05 | 0.05 | 2 |
| 2015 | 1.5 | 0.7 | 0.2 | 0.05 | 0.05 | 2.5 |
| 2016 | 1.8 | 0.9 | 0.2 | 0.05 | 0.05 | 3 |

Revenues of Soap Brands per Region for 2016 in BN USD

| Years / Units | USA (NA&SA) | Europe | China | ISA | APAC | TOTAL |
|---------------|----------------|--------|-------|------|------|-------|
| Tiger | 0.2 | 0.15 | 0.11 | 0.02 | 0.02 | 0.5 |
| Alexa | 0.6 | 0.55 | 0.05 | 0.02 | 0.02 | 1.24 |
| Wild Rancher | 1 | 0.2 | 0.04 | 0.01 | 0.01 | 1.26 |
| TOTAL | 1.8 | 0.9 | 0.2 | 0.05 | 0.05 | 3 |

Price per bar of soap (100 gm) is

Tiger - 8 USD

Alexa - 12 USD

Wild Rancher - 10 USD

Prices are converted in respective countries based on the exchange rate. (They are expensive but come under the luxury soaps)

No.of employees (Bracket numbers indicate the different vendors used)

| Region | Employees | Contractors |
|--------|-----------|-------------|
| NA | 2000 | 1000(4) |
| Europe | 1200 | 300(2) |
| APAC | 200 | 50(3) |
| Africa | 50 | 50(5) |
| China | 20 | 100(2) |
| TOTAL | 3470 | 1500 |

At the end of Dec 2016, the CEO realised that the growth rates have been less than satisfying but the more deeper concerns were with the margins. Profits have been dwindling due to high commodity costs and high marketing costs. His next quarterly analyst review is up in Jan 17 and is aware that he will be bombarded with unpleasant queries on the dwindling profits.

He has asked his direct reports - CFO, CMO, COO, CHRO - to come up with a quick analysis and a plan on how to overcome the current issue.
He wants to present this plan to the Analysts and post healthy figures for the March Analyst review.

The CXOs meet with the immediate reports (BU heads) to find out how to overcome the current crisis.

Each of the BUs is told to identify the pain areas, associated costs and how to overcome them.

The COO has asked his team of CPO, Production head and Logistics head to prepare a plan in similar lines.

The CPO is aware that the majority of the costs originate in procurement and calls upon his team to get all the information from all the global centres.

The various costs elements are:

1. Raw Material
2. Production - Mostly WIP costs and consumables.
3. Packaging
4. Logistics - Shipping from Factory to Distribution Centres and DCs to Distributors.
5. Marketing and Sales - General Costs, Events, Campaigns, etc
6. Engineering - Maintenance and Utilities.
7. Corporate - Includes Corporate events, R&D and HR costs (inclusive of Salaries) and
8. Misc - Any other cost not included above including Indirect procurement

For a simple understanding it can be noted that for 2016 the total costs were 2.6 BN as compared to 2 BN in 2015. (Profits would be calculated as Revenue - Costs)

Each of the BUs then pick up the relevant cost elements to identify where it can be optimised and where it can be dealt with quickly.

The CPO collated information for the top cost contributors in the above list - namely - RM, Packaging, Marketing and Sales and Indirect Procurement / Material costs.

1. Raw Material:

Raw material primarily consists of:

- Potassium Hydroxide (Common for all Soaps)
- Oils - (Palm for Wild Rancher, Olive for Alexa and Coconut for Tiger)
- Fragrances and Perfumes
- Abrasives - Talc, Silica and Marble pumice.

Planning of the production happens centralised at each region but the procurement of the items is location based

Each of the production plants, where in procurement also happens, is represented as below:

| Region | Plant location | Plant NAME |
|--------------|----------------|------------|
| NA | Nevada | PLNV |
| | Texas | PLTX |
| | Florida | PLFL |
| Europe | Romania | PLRM |
| | France | PLFR |
| | Sweden | PLSW |
| Asia Pacific | Australia | PLAU |
| | Indonesia | PLIN |
| Africa | South Africa | PLSA |
| China | Ghanzhou | PLCH |

Raw material costs per Plant: Costs are in USD. (Figures in bracket indicate number of different suppliers used for the same region)

| Plant | Potassium Hydroxide in Kg | Oils per liter | | | Fragrances and Perfumes per litre | Abrasives in Kg |
|-------|---------------------------|----------------|-------|---------|-----------------------------------|-----------------|
| | | Palm | Olive | Coconut | | |
| PLNV | 10(1) | 15(2) | 20(2) | 12(3) | 200(1) | 50(3) |
| PLTX | 9(1) | 14(2) | 22(1) | 13(1) | 180(2) | 45(1) |
| PLFL | 12(2) | 15(1) | 21(1) | 10(2) | 220(2) | 55(1) |
| PLRM | 5(2) | 20(2) | 10(1) | 20(3) | 100(3) | 30(4) |
| PLFR | 10(2) | 25(3) | 10(2) | 25(2) | 100(2) | 40(2) |
| PLSW | 20(2) | 20(2) | 20(1) | 30(3) | 80(3) | 35(2) |
| PLAU | 8(1) | 15(1) | 15(2) | 10(2) | 250(1) | 45(2) |
| PLIN | 5(2) | 8(2) | 25(3) | 5(1) | 300(2) | 40(3) |

| Plant | Potassium Hydroxide in Kg | Oils per liter | | | Fragrances and Perfumes per litre | Abrasives in Kg |
|-------|---------------------------|----------------|-------|-------|-----------------------------------|-----------------|
| PLSA | 8(1) | 15(1) | 15(2) | 10(2) | 250(1) | 45(2) |
| PLCH | 3(2) | 8(2) | 10(3) | 8(1) | 100(2) | 20(3) |

One bar of soap weighs 100 gm and requires the above ingredients in following %ages

(approximate)

Potassium Hydroxide - 10%

Oils - 60%

Abrasives - 25%

Fragrances and Perfumes - 5%

Costing Per Brand:

E.g. Wild Rancher - 100 gm - PLNV

| Ingredients | Weight | Cost (USD) |
|---------------------|--------|------------|
| Potassium Hydroxide | 10gm | 0.1 |
| Oils | 60 gm | 0.9 |
| Abrasives | 25 gm | 1.25 |
| F&P | 5 gm | 1 |
| TOTAL | 100 gm | 3.25 |

The above calculations can be repeated for other brands and plants

NOTE:

General logistics costs across regions and across brands per bar of soap for each ingredient and packaging and collateral is

Inter continental - 0.1 USD and

Intra continental is 0.05 USD.

3. PACKAGING:

Packaging cost involves the cost of

- Designing
- Paper wrap
- Box and Box wrap and
- Pallet wrap.

Packaging is again dependent upon the regions where it is sold. The vendors, though, are selected locally and hence the costs may vary per plant.

Packaging cost per soap bar in USD (Bracket numbers indicate the different vendors used)

| Plant | Tiger | Alexa | Wild Rancher |
|-------|--------|---------|--------------|
| PLNV | 0.1(1) | 0.15(1) | 0.1(1) |

| Plant | Tiger | Alexa | Wild Rancher |
|-------|---------|---------|--------------|
| PLTX | 0.09(1) | 0.12(2) | 0.12(1) |
| PLFL | 0.1(2) | 0.14(2) | 0.11(1) |
| PLRM | 0.08(2) | 0.1(1) | 0.05(1) |
| PLFR | 0.13(2) | 0.2(2) | 0.17(2) |
| PLSW | 0.1(2) | 0.13(1) | 0.08(2) |
| PLAU | 0.08(1) | 0.11(1) | 0.1(2) |
| PLIN | 0.02(2) | 0.05(2) | 0.03(3) |
| PLSA | 0.1(1) | 0.2(1) | 0.15(2) |
| PLCH | 0.02(2) | 0.05(2) | 0.03(3) |

5. MARKETING COSTS:

Marketing costs involve:

- Event Management
- Campaign Management - inclusive of all forms of advertising.
- Collaterals - Involves creation, printing and distribution.

Costs are in USD per bar of soap. Assume the cost is same across brands. (Bracket numbers indicate the different vendors used)

| Region | Events | Campaigns | Collaterals |
|--------|---------|-----------|-------------|
| NA | 0.1(3) | 0.15(2) | 0.05(1) |
| Europe | 0.2(2) | 0.25(1) | 0.15(1) |
| APAC | 0.12(2) | 0.13(2) | 0.2(2) |
| Africa | 0.1(3) | 0.05(1) | 0.1(1) |
| China | 0.02(2) | 0.03(3) | 0.01(1) |

8. INDIRECT MATERIAL PROCUREMENT:

This would involve costs related to:

- Office Stationery including printers, office equipments and Office consumables like beverages, eatables etc.
- Maintenance costs - Primarily cost of maintenance activities and spare parts (forming 90% of the costs)
- Misc expenses etc

Annual costs in USD (MN) (Bracket numbers indicate the different vendors used)

| Region | Office Stationary | Maintenance Costs |
|--------|-------------------|-------------------|
| NA | 0.1(3) | 0.15(2) |

| Region | Office Stationary | Maintenance Costs |
|--------|-------------------|-------------------|
| Europe | 0.2(2) | 0.25(1) |
| APAC | 0.12(2) | 0.13(2) |
| Africa | 0.1(3) | 0.05(1) |
| China | 0.02(2) | 0.03(3) |

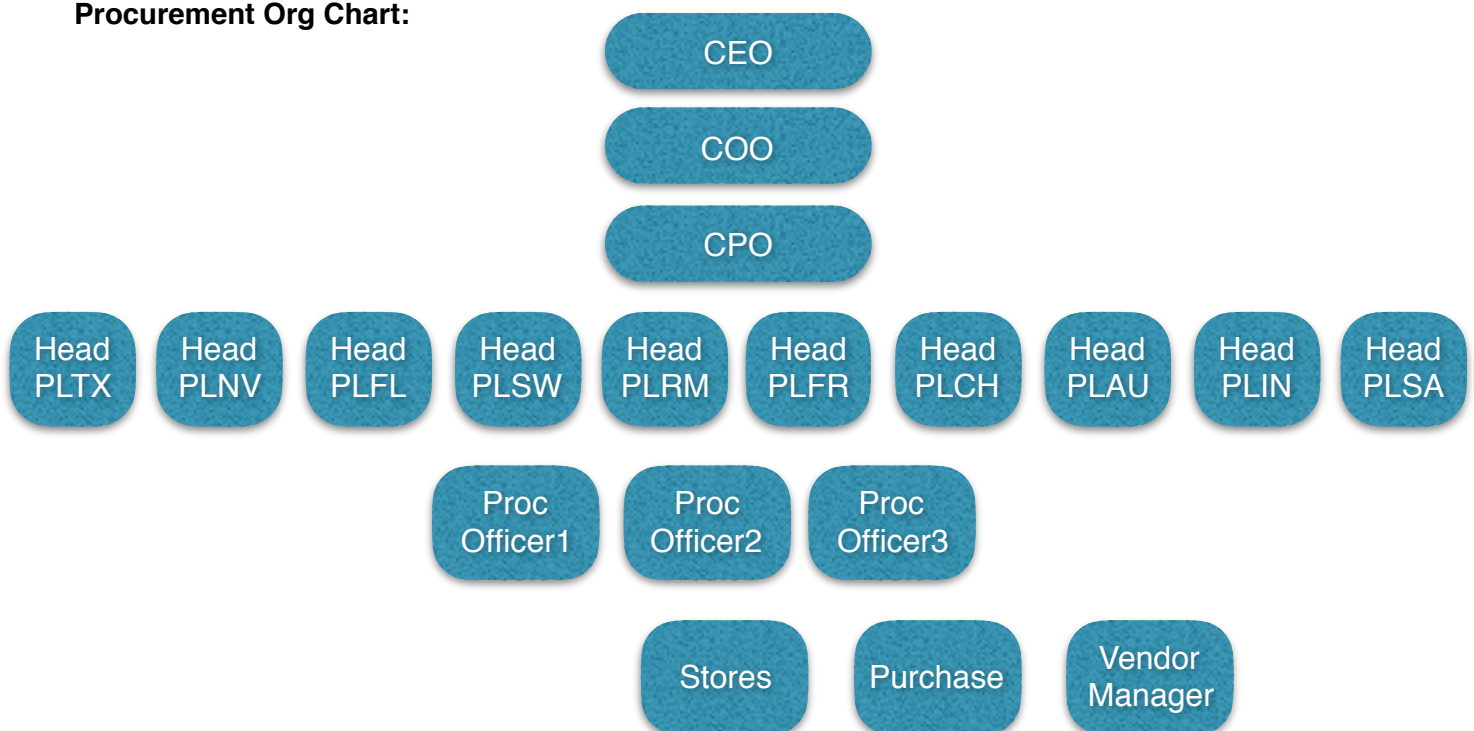
CHALLENGES:

- Once the CPO got the required information he realised that there is quite a lot of disparity in the way procurement happens.
- A lot of different vendors are used for the same purpose or products - not just locally but globally in all regions.
- Costs vary significantly for some items even though the quality of the products remain the same.
- There is no proper coordination among the various entities
- Different costings leading to complexities in final pricing and margins
- Reporting is complex and cumbersome to create and to take on the fly decisions.

The CPO is puzzled on how to proceed.

He has requested for a consultant to help him in this process.

Procurement Org Chart:



Each Plant with its Head will 3 Procurement Officers with each Officer having 3 clerks assigned each for Stores, Purchase and Vendor Management.

Objective of this exercise is to:

- Develop the consultants approach to this issue
- Analyse the given data. (Make assumptions wherever necessary)
- Based on the analysis present your recommendations.
- Develop a high level implementation roadmap for your recommendations. (Considering the timeframe of 3 months)