GENPACT

Case Study

SUPPLY CHAIN DECISION SERVICES

THE CLIENT

Global Energy major – world's largest supplier of power generations and services technologies

BUSINESS NEED ADDRESSED

Drive cost reduction in direct spend by gaining insight in various drivers of part cost and by identifying the right negotiation levers

RESULT

- 17% reduction in part costs
- Savings of 0.7 MM $ in the first year of start of the program

TESTIMONIALS

The should-costing models can be a very effective tool when negotiating with a new supplier (domestic or BCC), on repeatable parts, with limited variations; especially when a supplier is claiming there is no more margin or deflation to give when the rest of the supply base is giving us deflation."

- Commodity Site Leaders

BUSINESS CHALLENGE

The client's Parts & Repairs business saw an increase in purchasing prices of its parts eroding the contributing margins. This was due to several reasons:

- Lack of knowledge of cost drivers in different market regions
- Lack of visibility in manufacturing processes followed by the suppliers in manufacturing the parts
- Traditional approach in finalizing part costs by accepting "Low cost bids"
- Unable to defend the price rise requests from suppliers due to poor negotiations/lack of knowledge of negotiation levers
- No existing decision support system in finalizing costs for First-Time-Buy parts and prices for these parts were based on similar existing parts

GENPACT APPROACH AND METHODOLOGY

Genpact conducted an in-depth study on clients Direct spend and identified the part families and suppliers that had significant cost rise in last 6 months. The part families were prioritized and selected for initiation of Should Cost program. Toll – gating procedure was set up to identify the potential parts for Should Cost analysis based on planned orders, purchase orders and forecasts of parts on monthly basis. Stake holders were involved in toll-gating process and this ensured the parts were prioritized in line with client's negotiation schedules.

Genpact set up accurate data/document requirements along with operational definitions. An analysis was conducted to define roles and responsibilities for stakeholders at different levels. Genpact also collaborated with client's functional and Information Management teams to set up procedures to access/share required data.

GENPACT SOLUTION

Genpact deployed its solution in 3 phases:

Phase-1: Toll – gating of Parts

- The potential parts from the selected family were prioritized based on annual volume of spend which includes Purchase orders, Planned orders and Forecasts
- The prioritized high impact parts that were inline with the negotiation schedules wereselected for Should costing

Phase-2: Analysis of part costs through Should Cost models

- Studying Bill of Material and understanding the engineering drawings of Assemblies/Sub – assemblies and child parts
- Collecting details on material specification, material costs, form & feeds, estimated annual usage, source and destination
- Develop a detailed manufacturing process plan and testing procedures

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- Development of "Should Cost Model" detailing the cost drivers like Material, Processing, and Logistics costs
- Recommended cost reduction opportunities along with techno-commercial inputs

Phase- 3: Negotiation support

- Identification of negotiation levers
- Re- modeling of Should – Cost models basis discussions with suppliers
- upport client's negotiations with suppliers and drive deflation

BUSINESS IMPACT DELIVERED

The end-to-end approach taken by Genpact resulted in significant cost savings for selected part families.

Financial Impact

- 17% reduction in part cost
- Savings of 0.7 MM $ in the first year of start of the program

Operational Performance

- Gain visibility in supplier's manufacturing processes and ensure deployment of cost-effective manufacturing processes
- Enabled better collaboration with client's supply chain partners
- Increased visibility into various drivers of part cost

THE ROAD AHEAD – LONG TERM SUSTENANCE WITH THE CUSTOMER

Genpact's expertise in Should Cost analysis has resulted in significant cost savings to the tune of 0.7 MM $ in the first year of program and Genpact's relationship has moved to the client's other energy business as well. These results have made client extend Should Cost modeling scope beyond the current scope of suppliers and commodities.

These results have also allowed the client to explore Genpact's expertise in other functional areas like Supplier research, Commodity research and LCC sourcing programs.

Genpact is a global leader in business process and technology management, offering a broad portfolio of enterprise G&A and industry specific services, coupled with strong IT, analytics and reengineering capabilities.

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