

Accelerated Sourcing Strategies Yield \$5 Million EBITDA Savings for Private Equity-Owned Chemicals Company

Introduction

In the competitive chemicals industry, cost efficiency is paramount, especially for private equity-owned firms seeking to maximize returns. A leading chemicals company recently embarked on a Cost Take-Out strategic sourcing project targeting indirect procurement categories. By employing accelerated sourcing methods—including direct negotiations, leveraging Group Purchasing Organizations (GPOs), demand management, strategic sourcing, and category re-scoping—the company achieved \$5 million in EBITDA savings.

Accelerated Sourcing Approach

1. **Direct Negotiations:** The company initiated direct talks with key suppliers to renegotiate terms. By consolidating spend and presenting a unified front, they secured better pricing and more favorable contract conditions.
2. **Leveraging Group Purchasing Organizations (GPOs):** Joining GPOs allowed the company to benefit from collective buying power. This strategy led to reduced costs for commonly purchased indirect materials and services.
3. **Demand Management:** A thorough analysis of internal consumption patterns identified areas where demand could be reduced without impacting operations. Implementing stricter approval processes and promoting awareness led to a decrease in unnecessary expenditures.
4. **Strategic Sourcing:** The company employed a data-driven approach to select suppliers. By assessing total cost of ownership and supplier performance, they optimized their supplier base for both cost and quality.
5. **Category Re-Scoping:** Revisiting the scope of procurement categories enabled the company to identify overlaps and redundancies. Streamlining categories improved efficiency and reduced administrative costs.

Focus on Indirect Procurement Categories

Indirect procurement, often overlooked, presented significant savings opportunities. Categories such as office supplies, maintenance services, and IT equipment were scrutinized:

- **Office Supplies:** Standardizing products and reducing the number of suppliers led to bulk purchase discounts through a GPO.
- **Facilities Management Services:** Bundling services under a single contract with performance-based incentives improved service quality and reduced costs.
- **IT Services:** Direct negotiation with an IT solutions provider for ongoing systems support and development. Rates were benchmarked and direct negotiated with a 15% reduction.

- **Temp Labor:** Aggregate multiple contracts for light industrial and finance and accounting roles through one national provider with the reach and recruitment capabilities in exurban areas.
- **Material Handling Equipment Contract Restructure:** MHE equipment consisting of more than 200 forklifts where leases, maintenance agreements, battery servicing, mobilization, and replacement parts.
- **MRO:** redoubled implementation to all field sites to effectively ensure compliance with MRO program through a national provider. Detailed the order path and the source of MRO products from storeroom, vending machines, punchout catalogs, to calling dedicated contacts for special purchases.
- **Travel:** Integrated negotiated rates for preferred airline, rental car, hotels, and ride share into Concur and release a travel policy with clearly defined booking process and spend limits.
- **Utilities:** Locked in lower rates through long term contract commitments

Results and Impact

The comprehensive approach resulted in \$5 million added to the company's EBITDA. Beyond the immediate financial benefits, the project fostered stronger supplier relationships and enhanced procurement processes.

- **Financial Gains:** The cost reductions directly improved profitability, satisfying private equity stakeholders' expectations.
- **Operational Efficiency:** Streamlined procurement processes reduced lead times and improved service levels.
- **Strategic Positioning:** The savings allowed for reinvestment in strategic initiatives, positioning the company for future growth.

Results

The successful execution of the Cost Take-Out strategic sourcing project underscores the value of a multifaceted approach to procurement. By focusing on indirect categories and utilizing accelerated sourcing strategies, the chemicals company not only achieved substantial cost savings but also laid the groundwork for sustained operational excellence. The savings was tracked on a monthly basis audited through actual purchase quantities and prices against previous baseline cost.

Author Bio

The author is a procurement and supply chain professional with over 20 years of experience in strategic sourcing and group purchasing organizations. Specializing in procurement, the author has successfully led multiple initiatives that have delivered significant cost savings and operational improvements for companies across various industries.