

# OPERATIONS TRANSFORMATION

## A Brief Case Study on Process Re-engineering

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### About the Brand, Objective & Problem Statement

- A large chemical organization involved in research and production of specialty chemicals had a challenge in optimizing the Procurement Process. The company had a large customer base across the globe and the intended products had a wide variety of applications in different fields. This entailed extremely large numbers of

unique chemicals to be procured as key starting materials. The procurement team had to deal with close to 30 thousand unique chemicals to be procured in a financial year in quantities varying from just a few grams to hundreds of Kgs. To add to the complexity of the problem the expected lead time from the users were just a few days and the users were spread across multiple R&D centres in different locations.

- **Problem statement** - At the outset organization was reconciled to the fact that the current process which was meeting lead time requirements of users almost 80% of the time was good enough and there was no opportunity to optimize the process given the constraints.

## Approach

As part of our engagement entry approach, the consulting team proposed a detailed diagnostic assessment of the current state. The objective was to identify the opportunities for improvement / simplification of the existing process. The team customized the diagnostic assessment tool in context of the scope by collecting the prevalent hypothesis in the organization. Some of these hypotheses were:

- ❖ Given the huge variability in requirements, no forecasting is possible
- ❖ No guarantee that the same chemical would be required beyond one time usage (except for the small list of common chemicals)
- ❖ The price varies with the quantity ordered – lower the quantity higher the price
- ❖ Variation in price is linked to global market

The team decided to include detailed analysis of 5 years data as part of the diagnostic. Basis the diagnostics, team came with some very interesting observations some of which are:

- ❖ The trigger of procurement was always the indents raised by the users.
- ❖ Less than 5% of the items (out of 30K) explain 40% of the total spend are common at least for 4 years out of 5 years that was used for analysis

- ❖ Half of the above are procured multiple times across the year and across all years that these items were present. There were multiple instances observed across items where multiple orders were placed by different procurement teams (mapped to different labs & locations) on the same day on different vendors.
- ❖ Most of these items had multiple sources of supplies
- ❖ Price variation was not linked to quantity ordered as unit price per gm of the item varied almost randomly within vendors and between vendors considering multiple orders
- ❖ Price variations were not linked to market as different vendors had different pricing during the same period (orders placed within a week / fortnight)
- ❖ Some of the vendors supplied large varieties of items

### Solution From Vasutti

Based on the above diagnostic findings and in multiple conversations with clients, it was decided to completely reengineer the process assuming no constraint approach. The reengineered solution resulted in following major changes:

- 50% of the spend comprising of almost 10% of the items were taken out of indenting process
- Weighted Average Price at Vendor and Item level was computed to understand the variation in pricing and potential vendors to target
- The above set of vendors were chosen for the items under radar at a negotiated price based on past WAP and annualized contract
- Forecasting was initiated for the above items and based on forecasted amount with adequate factor of safety, the auto indenting process was implemented subsequently
- Rest of the items explaining another 20% of the spend were brought under these vendors as an incentive to increase the wallet share for them
- Further price discounts were negotiated with vendors based on certain threshold of wallet share

## Results (tangible results with numbers)

- Organizations overall spend on items under scope and on like-to-like consumption basis dropped by almost 5% totalling to INR 8 Crores of annualized savings
- Lead time improved from current average 4 days to less than 2 days
- The number of purchase orders dropped by almost 70% thus increasing productivity of procurement team
- This gave the organization confidence to explore opportunities in other categories of items



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