

Portland Group delivered 10% cost savings for our FMCG client across their raw material commodity spend in the face of rising market prices

Procurement Project Scope

Procurement Diagnostic	Procurement Strategy
Strategic Sourcing	Category Management
Low Cost Country Sourcing / International Purchasing	
Organisation and Skills	Policies and Systems

Industry Segments

Industrial	Construction
Mining	Utilities
Consumer Goods	Food & Beverage
Retail	Services
Financial	Transport
Healthcare	Government

Business Challenge

- Our client's newly acquired business was faced with significant raw material price increases (flour, sugar, chocolate and fats/oils)
- Key commodities were being purchased off contract and in the majority of cases market prices were rising
- Existing staff who were experienced in their industry, did not have the knowledge and/or methodologies to deliver both short term and longer term sustainable cost savings

Our Solution

- Portland's methodology for successfully buying commodities is a deep understanding of the underlying supply market. As an example, for flour an understanding was developed of the:
 - Risk-return tradeoffs made by the farmers and how this impacted price
 - Markets for wheat and the various byproducts ie offal (animal feed)
 - Farm to flour process and efficiencies/cost of each step in the process
- The flour business was put to tender and the responses analysed at both a qualitative and quantitative level. This provided a thorough understanding of the current competitive landscape, in particular the aspirations of each supplier
- The above was brought together in the form of a negotiation strategy which was used to deliver the stated outcome
- To date the business has been buying wheat/sugar at one point in the year and therefore increased its pricing risk. By working with the suppliers longer term buying strategies were developed to reduce this risk for both parties

Outcomes

- Across the commodities Portland delivered a net 10% cost down against current prices (with savings against price increases achieved up to 42% for particular commodities)
- Two to three year agreements were signed, locking in the negotiated low processing costs. Furthermore, the business had a far improved understanding of their commodity markets with a recommended, structured strategy to take positions throughout the year so as to spread the pricing risk

