

Sourcing Optimization At Large Direct Marketing Company: Consolidating The Vendor Base To Reduce Complexity

The Challenge: A large direct marketing company had more than doubled its sales in a 6-year period. The company had been recently purchased by a mega PE firm in a hotly contested auction, with Gotham's operational due diligence effort indicating a significant opportunity to reduce cost and complexity by consolidating CatalogCo's highly fragmented vendor base. Post-deal closure, the company management asked Gotham to help capture this opportunity in a strategic and expedited manner.

The Partnership:

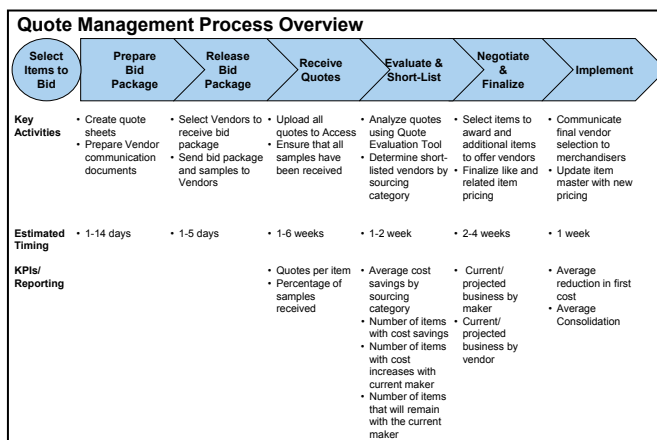
Analysis: Gotham quickly discovered that the company had no systematic sourcing approach – rather, individual merchandisers were responsible for sourcing products in their categories and there was a limited understanding of the vendor base and other sourcing related facts. To build a robust fact base that would guide solid decision-making and the vendor consolidation approach, the Gotham team captured key data from CatalogCo's information systems (e.g., PO history, item master, vendor data, inventory), as well as from off-line user databases/spreadsheets. Once the data was reconciled and synthesized, we created robust sourcing profiles (e.g., foreign vs. domestically-sourced items); an item complexity profile (e.g., ABC, department, class, material, occasion, closeout status); and vendor profiles (117 agents and trading companies and 1,742 manufacturers). From this analysis we found:

- A long spend tail, with 80% of spend attributed to only 40% of the items (6,740)
- An over-reliance on sourcing agents and trading companies for the bulk of the spend (for foreign-sourced items), leading to poor understanding and control of manufacturers
- The fragmented vendor base with, 82% of manufacturers (~1,400) accounting for the last 20% of spend.

An impact of this very fragmented vendor base could be seen in the high cost of product, and our initial analysis estimated ~10% in sourcing cost reduction.

Strategy: The vendor consolidation effort focused on ~20,000 SKUs (after excluding discontinued products). To tackle this large number of SKUs, we designed a five-phased effort, with each phase covering a set of sourcing categories. We staggered the schedule for initiating each phase, taking into account the work required by the sourcing team, merchandising team, and vendors at different points in each phase. For each set of categories, Gotham developed a bidding strategy to take advantage of likeness of the items and segmented SKUs:

- Initially, quoting the "Bid" items (large-volume and representative SKUs in each category) and short-listing 2-3 vendors with best prices for these items
- Assigning/offering "Like" items (items virtually identical to "Bid" items, e.g., different colors) at the same price point to the short-listed vendors as part of final negotiations
- Offering "Related" items (items similar to "Bid" items, e.g., same design but different size) to short-listed vendors at a pre-determined price
- Addressing remaining items on as-needed basis.



Execution: We closely worked with the sourcing team to help launch execution:

- Preparing the bid package: we consolidated all information related to items and sourcing categories and created a bid package, which included quote sheets, sourcing category details, and cover letter
- Releasing the bid package to vendors: working with the inventory and merchandising team, we identified list of vendors in each product category who would receive bid packages, with the vendor list narrowed to 6 full-line agents/trading companies and a handful of specialized vendors
- Receiving quotes: we create a detailed database to store all quotes coming in from the vendors including, factory profiles, sample quality information, and flags to identify follow-ups needed with vendors
- Evaluating and short listing: once the bids were uploaded, we performed a detailed analysis to identify best quotes – offer them taking into account quality information and consolidation requirements, the vendor short-list was determined
- Negotiating and finalizing: items (including like items) were offered to short-listed vendors and several rounds of negotiations were held to get the best price and maximum consolidation (making sure 2-3 vendors were finalized per sourcing category)
- Implementing: savings numbers were calculated based on final selection; final communication letters were sent to vendors and inventory specialists were informed of the new vendors.

By the end of our 6-month engagement:

- Phase I item categories were completed with items awarded to short-listed vendors
- Phase II item categories were in final negotiation stage
- Phase III item categories were at the initial bid evaluation stage
- Phase IV bid packages were sent out
- Phase V bid packages were being created.

As we exited this effort; the sourcing team had been fully trained and was working to complete all the phases in next 3 months using the detailed quote management tools and processes we developed; and working with the management, Gotham had set up a new strategic sourcing organization structure and processes to help sustain results from vendor consolidation effort.

The Outcome: By the end of the engagement, Phase I was finalized and was expected to yield \$1.4MM in savings with ~40% vendor consolidation achieved. Other phases were well underway, with the company's sourcing team trained and well equipped to carry forward the effort on their own with \$8.7MM total savings (12% reduction) targeted after all 5 phases were completed.